

**CHARLES UNIVERSITY IN PRAGUE  
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INTERNATIONAL ECONOMIC AND  
POLITICAL STUDIES**

**MASTER'S THESIS**

**CZECH LABOUR MARKET  
FOR FOREIGNERS  
AND THE SITUATION OF  
VIETNAMESE  
EMPLOYEES**

Author	<b>Nguyen Anh Dung</b>
Subject:	<b>IEPS</b>
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Supervisor:	<b>Prof. Martin Potěček, PhD.</b>
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## **Introduction**

Labour power is the most important factor of the productive forces that contribute to the production of social wealth. In modern societies, labour is a special goods which is transferable between countries. Import and export of labour power play an important role in filling the shortage of workers in more advanced countries and improving the lives of people in poorer ones.

With a moderate population and an economy in transition, the Czech Republic has a medium-sized labour market, but it is an attractive destination for foreign workers from Central and Eastern Europe (CEE) and Asia such as Slovakia, Ukraine, Mongolia and Vietnam. The transformation process, the development of the socio-economic conditions of the country and the aging of the population are the reasons that have led to the shortage of labour force in some sections of the economy. This is the common trend that has been happening in most of the advanced economies which has intensified the demand to import workers from foreign countries.

Vietnam is one of the first countries that sent its citizens to Czechoslovakia and has currently made up the third largest foreign community in the Czech Republic, after Slovakia and Ukraine. At the moment, there are more than 60.000 Vietnamese people living in the Czech Republic but nearly 20.000 of them have just arrived during the last few years to work in factories. Unfortunately, since the end of 2008, the global financial crisis started to strike the Czech economy. The situation seemed to have lesser impact on local workers than on foreign ones. A huge number of foreign workers have lost their jobs, of which the most effected group was from Vietnam.

### ***Research questions***

The expectation of this research is to make readers understand about the situation of Vietnamese workers in the Czech Republic and to look for solutions to improve the efficiency of the labour export activity of Vietnam. From this approach, Chapter I has a research on the Czech labour market since 1993 with a focus on the situation of migrant workers after the country's accession to the European Union (EU). The aim of this Chapter is to find out whether the Czech Republic is a desired destination for foreign workers. Chapter II is devoted to workers from Vietnam. The research in this Chapter dates back to the first wave of arrival of Vietnamese workers under Governmental agreements. How are



those who didn't return living now? Will they become a national minority in the Czech Republic? The difficulties of workers who arrived in the Czech Republic in recent years to work in factories are the main issue. This part tries to answer two questions: How did the financial crisis influence the condition of Vietnamese workers? And, why didn't they want to return home after being laid off? Finally, Chapter IV concluded with some policy recommendations to a better export activity of Vietnamese labour forces to the Czech Republic.

### ***Theoretical application***

In order to answer the proposed research questions, the following theories are used as important references:

#### **- Labour market theories:**

With regards to research on labour market, there have been many theories which are of high applicability. For this thesis, I utilized relevant ones namely *dual labour market theory* (Doeringer and Piore 1971; Piore 1980) or a similar one: *segmented labour market theory* (Piore 1979) to understand the root of the labour market and the movement of workers within it as well as the reasons of the existing demand for low skill workers.

#### **- International migration theories:**

The international migration theories are the basis to answer the question: why people migrate? There are two theoretical models to answer this question. The neoclassical one accepts that differences in wages are the motivation of international migration (Sjaastad 1962, Todaro 1969, Todaro and Maruszko 1987). Later, the supporters of new economics of migration insist that wage differential may be but not the only factor to encourage international migration. International migration reduces the capital constraints household faces in inaugurating production, offers a way to ameliorate the sense of relative deprivation (Stark 1991).

In my opinion when researching on labour migration, both think tanks are accurate and highly applicable. This assumption was also supported by Douglas S. Massey and his colleagues that: "*Based on the evidence available to date, therefore, the new economics of migration and the neoclassical model appear to complement each other in explaining*

*international migration; both models are "correct" and either one by itself would constitute an incomplete explanation of international migration"*<sup>1</sup>.

- Actor-centered institutionalism:

Elaborated by Mayntz & Scharpf in 1995 and further developed by Scharpf in 1997 in his book "Games real actors play: Actor-centered institutionalism in policy research", actor-centered institutionalism assumes that social phenomena are the outcome of interactions among intentional actors, but these interactions are structured, and the outcomes shaped, by the characteristics of the institutional settings within which they occur. Under the light of this theory, I could see different behaviors of the actors in the labour market under different legal framework or policy schemes, such as firms, workers as whole, work agencies etc.

- Public interest theory (Arthur Cecil Pigou 1932):

With the assumption of this theory in mind I was able to understand the reaction of the government in amending existing policies or introducing new ones such as the active and passive employment policies. It's also a foundation for the recommendations of policies of Vietnamese government to have a better labour export sector.

### ***Methodology***

Some traditional methods were employed in my research. *Data collection and analysis* was used as a basic knowledge seeking mean. As every other works, I spent a large amount of time to search from borrowed books, purchased e-books, printed and online articles, reports from Czech and Vietnamese authorities. The needed data was then analyzed from which assessments were made. *Comparative analysis* was applied to make clear the finding within a broader context. To the maximum extent, I tried to make comparison to as many contents of the research as possible in order to bring readers as much as information as I can. For instance, some of mentioned issues such as economic growth, inflation rate, unemployment rate etc of the Czech Republic are contrasted with those of its neighboring countries. I also utilized the *analysis of policies and legal documents* in order to understand the regulations of the Czech Republic such as its labour market policies, the reaction of the government at the redundancy of foreign workers in the

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<sup>1</sup> Douglas S. Massey; Joaquin Arango; Graeme Hugo; Ali Kouaouci; Adela Pellegrino; J. Edward: An Evaluation of International Migration Theory: The North American Case. Population and Development Review. 1994.

market as a consequence of the crisis. Finally and also importantly, in order to add more evidences and objective opinions to the thesis, I carried out several *interviews and consultations*. In term of ways of conduct, I made both direct talks with the persons I intended to interview when it's possible and when it's not, such as in case the people are living in other provinces, I used telephone and email as an alternative. In term of objects of the interviews, I divided them into 2 groups: officials and workers. For former, I talked with both Czech officials from Ministry of Labour and Social Affairs and Vietnamese diplomats from the Embassy of Vietnam in Prague. For the later, I talked with the Chairman of the Association of Vietnamese in the Czech Republic and some Vietnamese workers including people who arrived in the Czech Republic in 1980s and new Vietnamese workers who arrived in 2007 and 2008. The new comers were those who suffered severely from the global financial crisis. They have spoken out their situation, their feelings and thinking when experiencing the major change of their lives.

## CHAPTER I

### THE LABOUR MARKET OF THE CZECH REPUBLIC

#### I. An employment paradox

##### 1. Understanding the labour market of the Czech Republic

Labour market is one of the key mechanisms of transition from central planning to market economy. When Central and Eastern European countries started their political, economic and social reform, the labour markets underwent profound transformation. The transition process of the Czech Republic started after the political change in 1989 and became more intense after Czechoslovakia was divided into two separate countries in 1993. The Czech Republic has a pretty stable population. Since 1980s the total population has been fluctuating around 10,2 – 10,4 million people. As a result, as shown in Table 1 and Table 3 below, the labour force of the economy has always been standing at a bit more than 5 million people, which is about 50% of the population. With such stability, the labour market of the Czech Republic has been experiencing pretty good performance through the reform process as well as in its later development.

The transition of the labour market of the Czech Republic, as studied by Št pán Jurajda, composed of three stages: *(i) reallocating workers and jobs from old post-communist firms to newly started private enterprises, (ii) providing incentives for human capital investment decisions, and (iii) coming to terms with new anti-discrimination labor market legislation motivated by the looming of EU accession*<sup>2</sup>.

In theory and in practice that has happened in many countries, in the first phase of transition, market reforms and stabilization measures that followed price liberalization are likely to increase unemployment. *The indiscriminate imposition of hard budget constraints and the bankrupting of insolvent enterprises would lead to massive losses of jobs. Although growing rapidly, the private sector was initially too small to provide new employment on the scale required*<sup>3</sup>.

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<sup>2</sup> Št pán Jurajda: Three stages of Czech Labour Market Transitions: Reallocation, Incentives and EU standards. CERGE-EI, 2003.

<sup>3</sup> Nicolas Barr: *Labor markets and Social policy in Central and Eastern Europe: The Transition and beyond*. London School of Economics, 1994

**Table 1: Macroeconomic indicators of the Czech Republic 1993 - 2000**

	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP growth	0,1	2,2	5,9	4,3	-0,8	-1,0	0,5	3,3
Inflation	20	10	9,1	8,8	8,5	10,7	2,1	3,9
Unemployment rate	4,3	4,3	4	3,9	4,8	6,5	8,7	8,8
Labour force (thousand)	5093,6	5147,9	5170,6	5173,5	5184,8	5201,5	5218,2	5186,1

*Source: Czech National Bank, Czech Statistical Office*

However, the Czech Republic was an exceptional case. In the first half of the 1990s, Czech economy achieved considerable growth rate. During the period 1994 - 1996, most of the macroeconomic indicators were positive (Table 1). In the labour market, the country was very successful in maintaining a low unemployment rate, which was widely known as the “Czech miracle”. Graph 1 shows that until 1997 unemployment rate in the country fluctuated only around 4%, much lower than those of other transition economies such as Hungary, Poland and Slovakia.

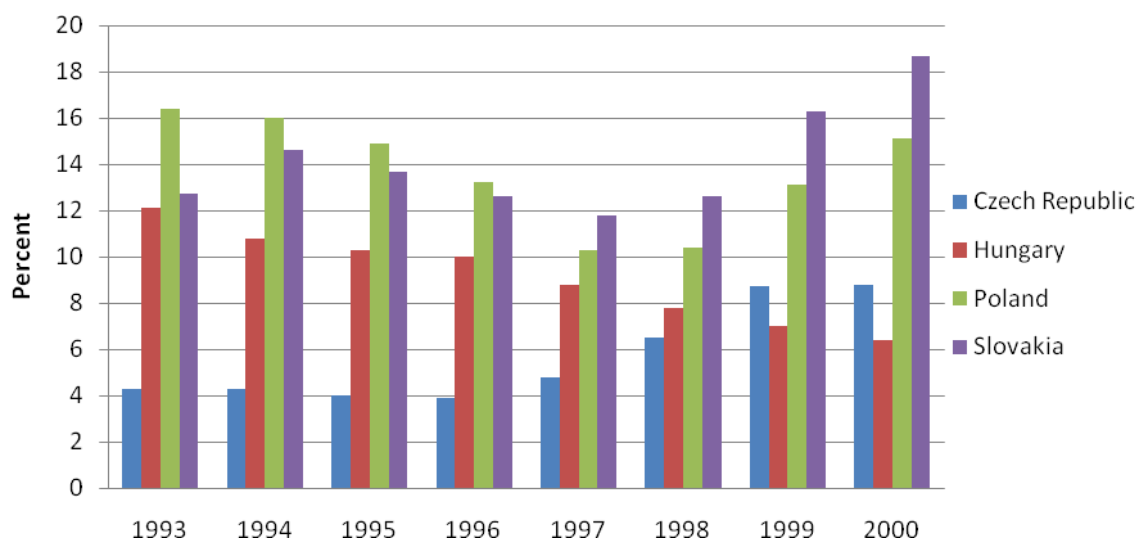
Employment structure changed constantly due to direct job-to-job movement. Workers who left the large industrial firms did not enter the unemployment group but moved directly to another job. Table 2 shows the shifts occurred between industries. While the number employees in traditional sectors like manufacturing and agriculture declined gradually due to the withdrawal of working pensioners, mass retirements and decrease in women’s participation, that of new and expanding branches such as trade and banking increased gradually.

**Table 2: Employed persons by Industry**

Source: Czech Statistical Office  
(Thousand persons)

EMPLOYED IN NATIONAL ECONOMY	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total</b>	<b>4,873.5</b>	<b>4,926.8</b>	<b>4,962.6</b>	<b>4,972.0</b>	<b>4,936.5</b>	<b>4,865.7</b>	<b>4,764.1</b>	<b>4,731.6</b>	<b>4,727.7</b>	<b>4,764.9</b>	<b>4,733.2</b>	<b>4,706.6</b>	<b>4,764.0</b>	<b>4,828.1</b>	<b>4,922.0</b>	<b>5,002.5</b>
Agriculture, hunting and related service activities	321.6	284.6	264.1	250.4	229.8	217.8	200.7	190.2	177.8	184.2	172.1	162.9	150.7	144.3	140.8	132.0
Share of total %	6.6	5.8	5.3	5.0	4.7	4.5	4.2	4.0	3.8	3.9	3.6	3.5	3.2	3.0	2.9	2.6
Manufacturing	1,444.4	1,429.1	1,421.6	1,407.4	1,369.5	1,340.8	1,307.8	1,281.5	1,310.4	1,318.2	1,294.3	1,274.2	1,296.1	1,361.5	1,405.5	1,432.9
Share of total %	29.6	29.0	28.6	28.3	27.7	27.6	27.5	27.1	27.7	27.7	27.3	27.1	27.2	28.2	28.6	28.6
Construction	423.9	451.7	455.4	467.5	480.9	472.0	443.2	439.0	427.7	425.2	438.7	435.6	458.5	436.3	446.8	461.9
Share of total %	8.7	9.2	9.2	9.4	9.7	9.7	9.3	9.3	9.0	8.9	9.3	9.3	9.6	9.0	9.1	9.2
Trade, rep. of mot.vehicles, pers.and househ.goods	510.3	589.1	618.6	639.6	658.7	645.5	640.6	612.9	604.9	619.8	627.8	630.9	614.8	613.6	613.1	633.4
Share of total %	10.5	12.0	12.5	12.9	13.3	13.3	13.4	13.0	12.8	13.0	13.3	13.4	12.9	12.7	12.5	12.7
Hotels and restaurants	148.9	149.4	153.9	155.6	166.2	169.2	157.4	156.3	158.7	170.5	170.7	174.8	181.7	187.0	181.5	176.9
Share of total %	3.1	3.0	3.1	3.1	3.4	3.5	3.3	3.3	3.4	3.6	3.6	3.7	3.8	3.9	3.7	3.5
Financial intermediation	68.1	81.3	91.5	94.8	96.6	99.7	98.8	99.6	101.4	95.2	96.3	93.6	96.5	92.2	101.7	115.0
Share of total %	1.4	1.6	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.0	2.0	2.0	2.0	1.9	2.1	2.3
Real estate, renting and business activities	219.6	241.6	245.4	256.1	251.9	248.4	256.5	266.0	256.0	269.1	284.9	281.5	288.3	321.3	353.0	370.1
Share of total %	4.5	4.9	4.9	5.2	5.1	5.1	5.4	5.6	5.4	5.6	6.0	6.0	6.1	6.7	7.2	7.4
Others	219.6	241.6	245.4	256.1	251.9	248.4	256.5	266.0	256.0	269.1	284.9	281.5	288.3	321.3	353.0	370.1
Share of total %	4.5	4.9	4.9	5.2	5.1	5.1	5.4	5.6	5.4	5.6	6.0	6.0	6.1	6.7	7.2	7.4

**Graph 1: Unemployment rate in CEE countries**



*Source: Statistical Offices of relevant States*

In the second half of 1990s, the Czech Republic entered a recession period with real GDP fell sharply to -1% in 1998 (Table 1). The situation forced the Government to implement further restructuring measures to reduce government expenditure and public consumption, to enforce bankruptcy procedure over state-owned enterprises, etc. These measures actually had negative impacts on most of the sectors of the economy especially construction, manufacturing and services, and consequently increased unemployment. Unemployment rate rose sharply from 3,9% in 1996 to 8,8% in 2000 and remained that high until 2005 (Table 3).

**Table 3: Macroeconomic indicators of the Czech Republic 2001 - 2009**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP growth	2,5	1,9	3,6	4,5	6,3	6,8	6,1	2,5	-4,2
Inflation rate	4,7	1,8	0,1	2,8	1,9	2,5	2,8	6,3	1,0
Unemployment rate	8,1	7,3	7,8	8,3	7,9	7,1	5,3	4,4	6,7
Labour force (thousand)	5146	5139,1	5139,3	5132,5	5174,2	5199,4	5198,3	5232,3	n/a

*Source: Czech Statistical Office: Statistical Yearbook of the Czech Republic, 2009*

Since 2000, the Czech economy escaped the recession with its GDP grew back to 3,6% in 2003 and higher in coming years. But there was little improvement in the labour market. Unemployment rate stayed highly around 7% – 8%. Employment structure continued to change, but not as strong as earlier years. These observations reflect the lower flexibility and mobility of work force during this period.

The accession to the European Union has brought about significant effects on the economy and labour market of the acceding Central and Eastern European countries. The reasons were affirmed by Nicolas Bar as follow:

*Accession should allow member countries access to each others' product and factor markets. It should facilitate physical investment as well as an exchange of skills and technical and managerial know-how - all of which should help promote employment and productivity growth in new members. Whether this potential is realized will depend in large part on the criteria for accession and how these are implemented in the new Europe<sup>4</sup>.*

The criteria, according to the author, include: the binding technical criteria (harmonization of labour law, equality of treatment of gender and other groups, health and safety conditions); and the Open Method of Coordination (adopt and monitor the objectives of the European Employment Strategy).

For the Czech Republic, in preparation for the accession, the country was quite active in harmonizing its national labour law and employment policy with EC's rules. In May 1999, Czech Government adopted the "Economic strategy of the accession to the European Union" which included a wide range of policies to obtain a sustainable growth in the country's competitiveness and employment. The Labour code amended in 2000 along with a series of Acts adopted thereafter have reflected EC directives on employment and the European Social Charter in terms of equal treatment and non discrimination, rights of workers to be informed and consulted, protection of workers in case of termination of employment or insolvency of employer, etc.

After becoming a full member of the European Union, in line with the Lisbon Strategy, the Czech Government adopted the National Action Plan for Employment for the period 2004 – 2006. The aim of this document is to increase the flexibility of the labour

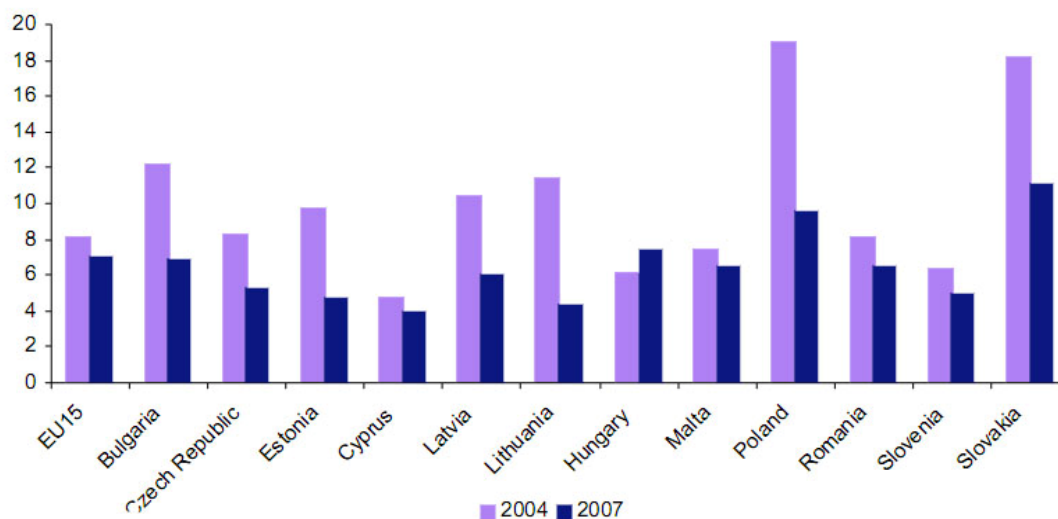
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<sup>4</sup> Nicolas Barr: *Labor markets and Social policy in Central and Eastern Europe: The Accession and beyond*. The World Bank, 2005.



market and employment. A set of solutions was defined including the next amendment of the Labour Code in March 2004, the adoption of a new Employment Act (effective since October 1, 2004). Stricter passive employment policy and expanding active employment policy with new instruments (reduction of the time to find a new job, increase tangible supports for the creation of new jobs, etc) were applied. In addition, significant growth of foreign investment in the Czech Republic and stronger exports to EU member states thanks to the lift of barriers after joining the European Union took an important part in achieving good results as shown in Table 3 (page 9): GDP increased progressively and unemployment decreased gradually, meanwhile inflation was kept below 3%. Graph 2 below displays the decrease of unemployment rate of the Czech Republic, with a comparative view on new member states of the European Union, 3 years after accession to the European Union. It's obvious that the unemployment rate of the Czech Republic in 2007 was lower than most of the new member states of the European Union.

**Graph 2: Unemployment rate in new member states of the EU**



*Source: Martin Kahanec and Klaus F. Zimmermann: EU Labor Markets After Post Enlargement Migration. Springer-Verlag Berlin Heidelberg, 2010.*

From 2008, under the impact of the global financial crisis, Czech economy fell into recession again. All major macroeconomic indexes declined, of which GDP increased only 2,5% in 2008 and even -4,2% in 2009. Industrial sales dropped to -0,3% and -15,1%. Construction output stood still in 2008 (0%) then fell to -1% in 2009. Regarding unemployment, since September 2008, the number of job seekers registered at labour offices has been increasing. However, the crisis hit mostly unskilled and low-skilled

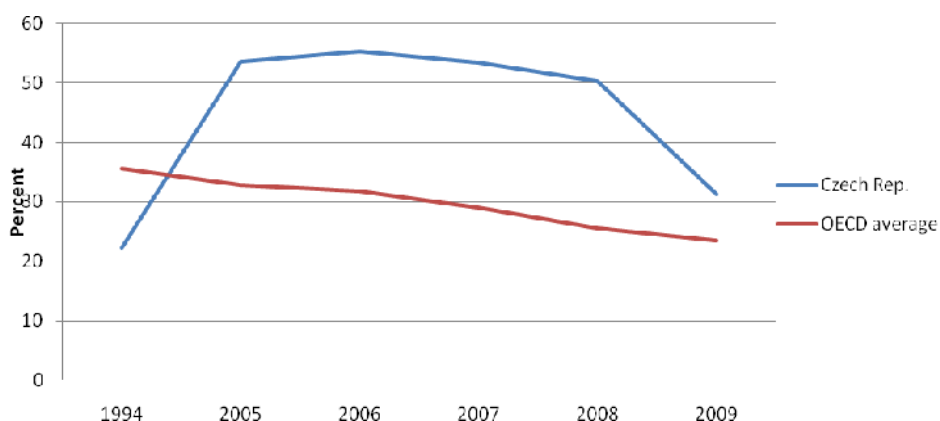
people. The fall in employment occurred firstly in the secondary sector, especially in manufacturing. The number of job seekers increased quickly from 352.250 by 31 December 2008 to 463.555 by 30 June 2009 and 539.136 by 31 December 2009. The average month-on-month increase of job seekers in 2008 was 11.300 people and in 2009 were 15.900 people<sup>5</sup>.

## 2. An employment paradox

Even functioning pretty well but the Czech labour market has been facing a structural problem of high share of long-term unemployment (over 12 months) in overall unemployment. Graph 3 exhibits that the number of people who couldn't find jobs for more than 12 months always accounted for more than 50% of the total unemployment, which is much higher than OECD average. The situation is that, when the demand for labour force of the country is high, many workers are still out of work for a long time. I call this situation an employment paradox.

High rate of long term unemployment is a problem faced by many European countries, including both advanced economies of the West as well as those in transition of the East. This picture is shown in Graph 4, from which we have found that it's not the Czech Republic, but its brother, the Slovak Republic, experiences the highest long term unemployment rate. The bigger economies such as Germany, France or Italy are also facing high rate of long term unemployment of over 40% and 50% of their total unemployment rate.

**Graph 3: Long term unemployment (% of total unemployment)**



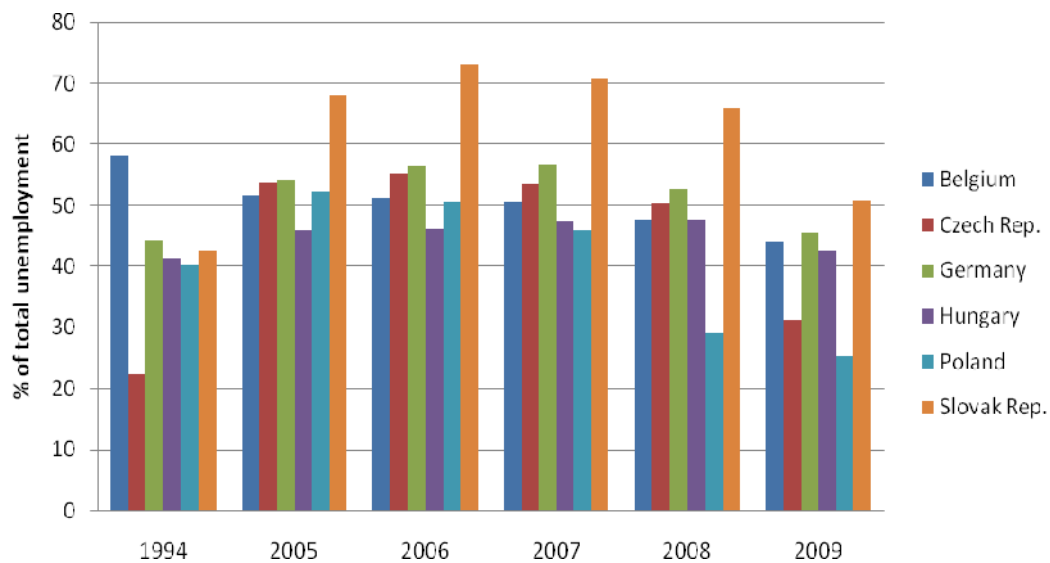
Source: OECD Employment Outlook 2010

<sup>5</sup> Information on unemployment in the year 2008 & 2009 – MoLSA - own calculation.

There have been several studies on the reasons of high long term unemployment rate. Thomas S. Mondschean and Margaret Oppenheimer have found that there are some similarities and differences between Central European countries. However, for the Czech Republic, it has more specific reasons. There are two groups of main reasons that cause high long term unemployment rate in the country: objective reasons that prevent unemployed persons from finding a job and subjective reasons that eliminate their motivation to find job.

(1) The first objective reason is rooted from the transition of the economy. The demand for skilled workers became stronger since the Czech Republic carried out the transformation of its economy. Industrialization and innovation of technology raise the demand for qualified labour. When state-owned enterprises were closed or restructured, a large number of workers lost their jobs but their skills did not match well with the higher requirements of the economy.

**Graph 4: Long term unemployment rate in EU Member States**



Source: OECD Employment Outlook 2010

Furthermore, after accession to the European Union, along with a boom in foreign investment and economic development, the need of qualified labour forces has become more intense. Gilles Saint Paul argues that *“technological advances may generate unemployment directly by increasing the productivity of the skilled relative to the unskilled and indirectly by increasing the supply of skilled workers in the economy. The*

*unemployability of the unskilled is reinforced by the above-mentioned option (under a rigid regime with high firing cost) value of letting a job position idle until a skilled worker is found”<sup>6</sup>. Table 4 shows that the higher unemployment rate belongs to the groups of basic and secondary education and of age from 40 – 54 (people of these ages are the main labour force of since the start of the transition).*

**Table 4: The unemployed and their structure by educational attainment and age group**

*(Thousand persons)*

Indicator	2005		2006		2007		2008	
	<i>Total</i>	<i>incl.: Female</i>	<i>Total</i>	<i>incl.: Female</i>	<i>Total</i>	<i>incl.: Female</i>	<i>Total</i>	<i>incl.: Female</i>
<b>Total unemployed</b>	<b>410.2</b>	<b>223.5</b>	<b>371.3</b>	<b>202.2</b>	<b>276.3</b>	<b>152.7</b>	<b>229.8</b>	<b>127.2</b>
<b>Highest educational attainment</b>								
Basic	98.9	53.1	91.8	50.6	73.6	40.4	68.1	37.9
Secondary without maturity examination	198.7	100.4	169.9	82.5	126.6	66.0	93.2	47.2
Secondary with maturity examination	95.9	62.0	91.8	60.7	63.6	41.0	55.3	35.7
University	16.6	7.9	17.7	8.4	12.4	5.3	13.2	6.3
Without education	-	-	.	.	.	.	.	.
Not identified	-	-	-	-	-	-	-	-
<b>Age group</b>								
15 – 19	25.2	10.2	21.2	8.5	12.4	5.1	11.5	5.5
20 – 24	63.3	26.2	57.7	27.2	33.5	14.1	29.8	11.4
25 – 29	59.3	32.7	44.0	21.9	33.7	17.5	25.6	12.8
30 – 34	50.5	33.1	52.1	31.6	39.9	27.1	35.8	23.4
35 – 39	42.0	26.8	37.7	24.2	31.2	21.7	25.6	17.0
40 – 44	40.7	24.4	37.4	23.8	29.5	17.3	21.1	12.6
45 – 49	41.9	23.3	38.8	23.2	27.1	15.3	25.5	15.9
50 – 54	52.5	31.2	45.4	27.0	36.1	21.7	26.2	15.9
55 – 59	29.0	12.7	31.1	12.9	27.8	11.7	23.7	11.1
60 – 64	4.1	2.1	4.4	1.1	4.3	1.0	4.4	1.5
65 and older	1.7	0.7	1.5	0.8	0.8	.	0.6	.

*Source: Czech Statistical Office: Statistical Yearbook of the Czech Republic, 2009*

<sup>6</sup> Gilles Saint-Paul: *Dual labor markets – A macroeconomic perspective*. The MIT Press Cambridge, London, England, 1996.

(2) The second objective reason lies in the regional disparities: While the overall performance of the labour market is good, some regions experience pretty low labour demand and face higher rate of unemployment. It's easy to find from Table 5 that Moravskoslezský, Ústecký, Jihomoravský and Olomoucký always have higher and highest number of unemployed persons.

**Table 5: The unemployed and their structure by regions**

*(Thousand persons)*

Regions	2005		2006		2007		2008	
	Total	Incl. female	Total	Incl. female	Total	Incl. female	Total	Incl. female
<b>Total unemployed</b>	<b>410.2</b>	<b>223.5</b>	<b>371.3</b>	<b>202.2</b>	<b>276.3</b>	<b>152.7</b>	<b>229.8</b>	<b>127.2</b>
Hl. m. Praha	22.4	11.7	18.1	7.9	15.8	8.5	12.5	6.8
St edo eský	30.4	17.5	26.9	15.4	20.4	10.3	16.0	7.8
Jiho eský	15.9	8.4	16.3	9.5	10.6	6.7	8.5	5.4
Plze ský	14.5	9.0	13.0	6.8	10.4	6.4	10.5	6.2
Karlovarský	17.7	8.9	16.2	8.3	13.2	6.3	12.2	6.5
Ústecký	60.9	29.3	57.7	31.2	39.9	21.0	32.1	14.3
Liberecký	14.0	8.3	16.5	9.3	12.8	7.6	9.7	4.9
Královéhradecký	12.9	7.9	14.9	8.2	11.5	6.5	10.9	6.7
Pardubický	14.1	8.1	13.7	7.7	11.2	6.3	9.2	5.9
Vyso ina	17.2	8.7	13.5	7.2	12.1	6.8	8.4	5.0
Jihomoravský	45.2	24.2	44.6	24.1	30.5	16.8	24.7	13.9
Olomoucký	31.4	19.2	26.0	15.8	20.1	11.3	18.5	10.9
Zlínský	27.4	13.8	20.8	12.0	16.5	8.7	11.3	5.2
Moravskoslezský	86.4	48.3	73.1	38.8	51.3	29.8	45.3	27.6

*Source: Czech Statistical Office: Statistical Yearbook of the Czech Republic, 2009*

(3) Roma unemployment is the third objective reason that contributes significantly to the high rate of long term unemployment of the Czech Republic. High and long-lasting unemployment rate is one of the major problems facing Rom communities in the Czech Republic. While the average unemployment rate of the whole country is 5,4%, the unemployment rate of the Roma is 11,7%. This situation is reflected in Table 6.

To the moment, the efforts of Czech government to mobilize the unemployed Roma to work seems not to bring about much efficiency because there is a trend in this community to stay out of the labour force intentionally. Many jobless people have given up looking for jobs. Consequently, this behavior increases the unemployment rate among the Rom community and also makes it more persistent. There are several reasons that lead to this high long term unemployment rate among the Roma.

**Table 6: Indicators of labor market outcomes: Roma against the national average**

*(data for the Czech Republic refers to 2007, data for Roma refers to 5/2008)*

	Unemployment rate		Labor force participation rate		Employment/population ratio	
	Roma	Czech Republic	Roma	Czech Republic	Roma	Czech Republic
Population of working age	11.7	5.4	44.2	69.9	39.1	66.1
<i>Gender</i>						
Men	10.3	4.3	61.3	78.1	55.0	74.8
Women	14.0	6.8	30.5	61.5	26.3	57.3
<i>Age</i>						
15 – 24 (youth)	24.7	10.7	42.4	31.9	31.9	28.5
25 – 54 (prime-age)	7.8	4.8	44.2	87.8	40.7	83.5
55 – 64 (older)	15.2	4.6	50.0	48.2	42.4	46.0

*Source: Report No. 46120 CZ: Czech Republic: Improving Employment Chances of the Roma. The World Bank. 21/10/ 2008*

Firstly, the chance for the Roma to find jobs is limited because the majority of them are suffering low skills and education attainment. *Early school leaving looms large: 60 percent have only primary education and 14 percent attended special school for children with learning disabilities. As a result, more than 40 percent have been found functionally illiterate, with another 40 percent having only limited literacy and numeracy skills<sup>7</sup>.* Meanwhile, the demand for low and unskilled workers is low especially in marginalized regions where the Roma inhabit. Furthermore, while the Roma can only find work in the secondary labour market, the migration of low skilled foreign workers to the Czech Republic over the past few years have created a strong competition toward them.

<sup>7</sup> Report No. 46120 CZ: Czech Republic: Improving Employment Chances of the Roma. Human Development Sector, Unit Europe and Central Asia, The World Bank. October 21, 2008

Secondly, many Rom people rely on social welfare benefits. The Czech Republic has a pretty generous social welfare system in which the levels of benefits have until recently been relatively higher to wages for low and unskilled jobs. This situation encourages Rom welfare beneficiaries to stay out of the job seekers. This occurs mainly in low wage regions where demand for low-skilled workers is low and where many socially excluded Roma reside.

(4) The major subjective reason of long term unemployment is the social assistance system. Until 2007, the unemployment benefits and social assistance benefits are pretty good as compared to minimum wage. Table 7 displays the changes of minimum wage and subsistence minimum. In 2000 and 2001, the amount of subsistence minimum given to families with 2 children was a little higher than the minimum wages received by 2 adults. In following years, with the adjustment of Czech Government, the minimum wage has been increasing gradually while subsistence minimum has been reduced gradually. However, before January 2007, subsistence minimum was just a little lower than minimum wages and therefore was still better to many families. This condition encouraged people to collect social assistance benefits from the State rather than to look for job. This explained why the long term unemployment rate was always higher during this period, as shown in Graph 3 above. Since January 2007 the difference between minimum wage and subsistence minimum has been positively significant. Minimum wage has been raised to 8.000 CZK/month which gave family with 2 adults working 16.000 CZK/month. This amount is better than the subsistence minimum, which has been reduced to 9.040 CZK/month for families with 2 children and 11.290 CZK/month for families with 3 children. This update has a positive impact of motivating people to work. However, for many families of unskilled workers with more than 2 children, mostly the Roma ones, collecting subsistence minimum and doing unregistered work is a way to have higher income.

**Table 7: Trends in minimum wage and subsistence minimum 2000 – 2010**

	<b>Net minimum wage CZK (per month)</b>	<b>Net minimum wage CZK (per month) both adults work</b>	<b>Subsistence minimum for 2 adults with 2 children</b>
1/2000	4.000	8.000	10.150
1/2002	5.700	11.400	11.640
1/2003	6.200	12.400	11.640

1/2004	6.700	13.400	11.640
1/2005	7.185	14.370	12.050
1/2006	7.570	15.140	12.320
1/2010	8.000	16.000	9.040

*Source: Ministry of Labour and Social Affairs and Magdalena Kotýnková: Long-term unemployment in the Czech Republic: Motivation, obstacles and the social assistance system. Prague Economic Papers, 2006.*

Some other subjective reasons of long term unemployment, as stated by Magdalena Kotýnková, involve cultural attitudes, the destigmatization of the unemployed, inflexibility and participation in the informal economy. According to her study, some unemployed people do not actively search for jobs because this action does not present in their thinking pattern and some are complacent with their situation. For other cases, many long-term unemployed people participate in informal economic activities instead of finding a legal job. Doing so, they have the multifold benefits while receiving social assistance benefit, they earn wages from informal works without paying any taxes.

## **II. The effect of brain drain in the Czech Republic**

Brain drain is a situation that has long been challenging policy makers of each country because it weakens the internal labour force – the impetus of socio-economic development. Nowadays, brain drains should not only be understood as the migration of qualified workers and experts from developing countries to developed ones, but it has a more realistic meaning: the movement of qualified employees from one country to another with better working condition where they can enjoy not only better wage, but better social security benefits and even lower income tax. Table 8 summarizes the number of migrants from several European countries in the United States which shows an increase between the year 1990 and 2000.

**Table 8. The European-born population aged 25-64 in the United States**

	<b>1990</b>		<b>2000</b>	
<b>Country</b>	<b>Number</b>	<b>% of home pop.</b>	<b>Number</b>	<b>% of home pop.</b>
Belgium	21.561	0.45	22.631	0.62
France	115.245	0.40	133.873	0.43
UK	450.804	1.53	524.922	1.66

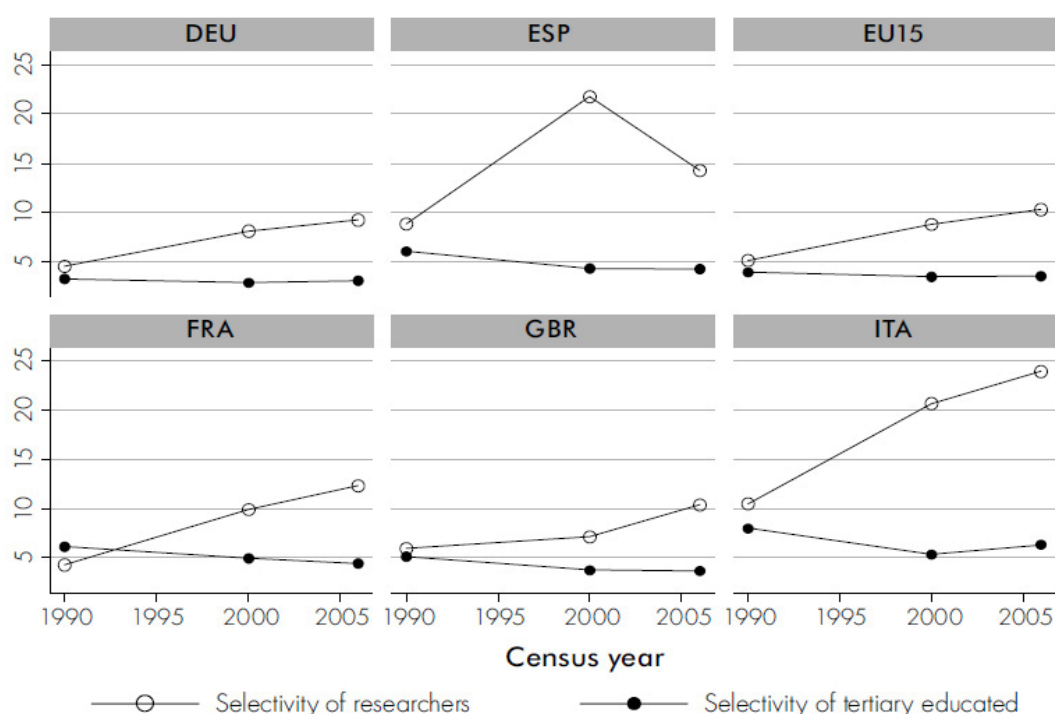


Spain	57.375	0.29	78.061	0.36
Italy	344.406	1.15	303.685	0.93
Germany	657.937	1.40	720.555	1.54

Source: Gilles Saint-Paul: *The European brain drain: European workers living in the US*, 24 December 2008.

Graph 5 has more details on the level of education of the migrants, in which, the selectivity of tertiary educated is the ratio of the share of recent expatriates with tertiary education to that share in the source country labor force. The selectivity of researchers is the ratio of the share of recent expatriates that work as researchers to that share in the source country labor force. Then the trend is that the share of researchers' outflows from the EU 15 is always higher than that of tertiary educated only.

**Graph 5. Brain drain of European researchers to the United States**

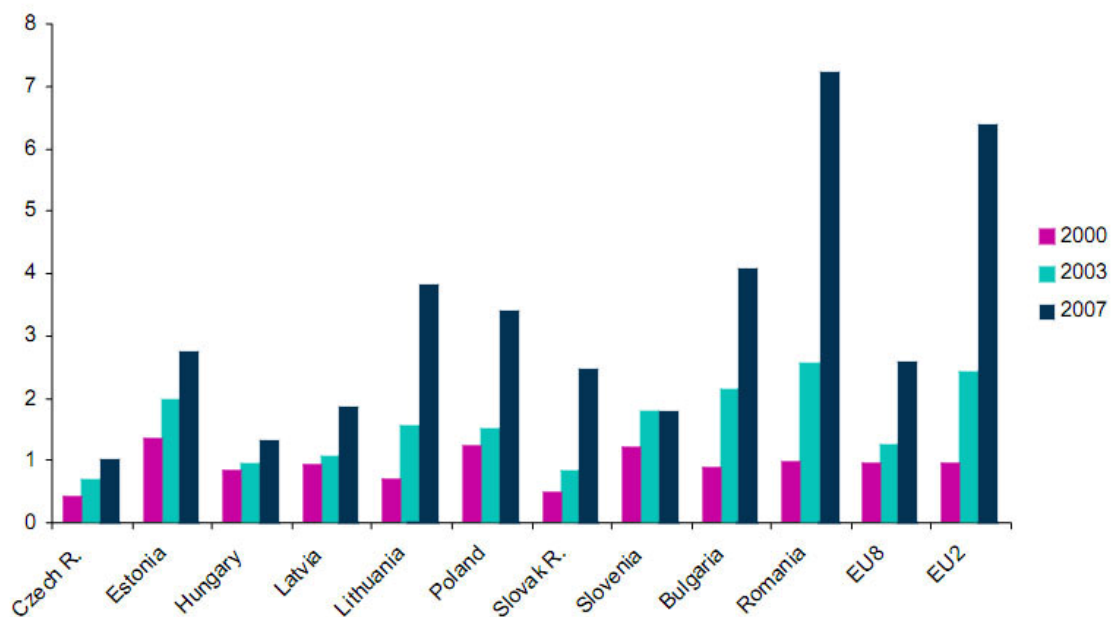


Source: Ahmed Tritah: *the brain drain between knowledgebased economies: the European human capital outflow to the US*. *Économie internationale*, 2008.

While the European Union is worrying about the migration of local experts to other countries such as the United States, the new member states of the European Union are in the same mood facing their brain drain to older and stronger member states. This intra-regional migration is intensified by the Union's regulation of free movement of labour and the incentives offered by richer countries to attract foreign workers for their need. Graph 6

shows the increase of non-nationals in the EU 15 who were citizens of the new member states over 3 years from 2000 to 2007. Romania, Bulgaria and Lithuania recorded the highest number of outflow of workers. The Czech Republic was one of the 3 countries that had the lowest share of leavers.

**Graph 6: Share citizens from new member states in the EU 15**



*Source: Martin Kahanec & K. F. Zimmermann: EU Labor Markets After Post Enlargement Migration. Springer-Verlag Berlin Heidelberg, 2010*

For the Czech Republic, the situation of brain drain seems not to be too serious. Table 9 shows that the number of Czech citizens going abroad increased after the country joined the European Union, but is decreasing in recent years and the share of expatriates in the whole population is not so significant.

The conclusion drawn from Table 9 is only about the emigrants from the Czech Republic in general and thus still does not reflect the trend of emigration of skilled workers. Due to the impossibility of categorizing the number of skilled workers with tertiary and higher education, I use the survey results made by Jana Vavreková and Ivo Baštý which was published by the Research Institute for Labour and Social Affairs.

**Table 9: Emigrants of Czech citizens to other countries**

	2003	2004	2005	2006	2007	2008	2009
No. of emigrants	34.226	34.818	24.065	33.463	20.500	6.027	11.629
% of population	0,33	0,34	0,23	0,32	0.19	0,057	0,11

*Source: Czech Statistical Office: Demographic Year Book of the Czech Republic in corresponding years*

Table 10 shows the number of Czech science and research workers who are considering finding jobs abroad are pretty high. Among respondents in the survey, 52,8% of PhD. students, 45,1% of doctors and 43% of IT/ICT specialists expressed their intention.

**Table 10: Emigration potential**

Attitude to migration	doctors	IT/ICT specialists	engineers/ developers	PhD. students
Positive attitude to migration (%)	45.1	43.0	19.9	52.8
Total respondents	462	276	418	523

*Source: Jana Vavreková and Ivo Baštyl : The Effect of Brain Drain in the Czech Republic and Earnings Motivation for Qualified Specialists to Work Abroad. VPUSV, 2009.*

In Table 11 most of the respondents who are highly qualified persons say that the most important reason for which they would like to work in another country is better wage they can get. This proves the applicability of the *international migration theories*.

**Table 11: Motives of working abroad**

	Doctors	IT/ICT specialists	Engineers/ Developers	PhD. students
More opportunity for career growth abroad	46	58	63	53
More opportunity for career growth after returning to the Czech Republic	53	79	79	76
Better pay	94	87	96	83
More opportunity for professional development in the given area (state-of-	82	80	91	81

the-art technologies, standard of equipment in workplaces)				
Work in a renowned organization (firm, medical facility) with high prestige	62	44	59	65
More professional work relationships	70	47	67	53
Improving a foreign language	90	86	92	82
Gaining international outlook and contacts	82	89	91	91
Better prospects for my children's future	44	54	70	50

*Source: Jana Vavreková and Ivo Baštý : The Effect of Brain Drain in the Czech Republic and Earnings Motivation for Qualified Specialists to Work Abroad.VPUSV, 2009*

And when asked about their desired destination, the most wanted place is England, as in Table 12:

**Table 12: Desired destinations of Czech citizens**

Target country	doctors	IT/ICT specialists	engineers/developers	PhD. students	Czech population
Germany	13.9	4.3	18.3	12.1	22.7
Austria	7.6	2.8	6.1	2.2	7.6
<b>Great Britain</b>	<b>29.3</b>	<b>22.3</b>	<b>24.4</b>	<b>24.9</b>	24.9*
Ireland	18.9	20.6	2.4	4.0	
other EU state	8.5	12.1	15.9	21.4	9.1
other European country	3.8	2.8	1.2	5.4	+
USA/Canada	7.7	13.1	18.3	20.1	12.4
Australia/New Zealand	7.6	12.8	7.3	4.0	4.9
some Asian country	1.8	2.1	2.4	21.4	+
another country	0.9	7.1	3.7	4.5	3.7

*Source: Jana Vavreková and Ivo Baštý : The Effect of Brain Drain in the Czech Republic and Earnings Motivation for Qualified Specialists to Work Abroad.VPUSV, 2009*

In general terms, in the new member states, the emigration of skilled people could set some additional demographic challenges on countries experiencing significant outflows of people. Although these countries have to attract qualified people from other countries to offset the vacancies, but the question on whether the quality of the arriving workers can fulfill the losses caused by brain drain is a matter of fact. As stated at the beginning of this part, the effect of brain drain is not too serious in the Czech Republic in term of quality. The effect may be in the quality of the coming workers. In the conclusion of their study, Jana Vavreková and Ivo Baštý have said that: *as the Czech Republic does not possess*

*sufficient information about incoming experts from abroad or about their degree of integration into Czech society, we do not know to what extent the incoming foreign experts can replace the outgoing Czech experts.*

### **III. Is the active employment policy effective?**

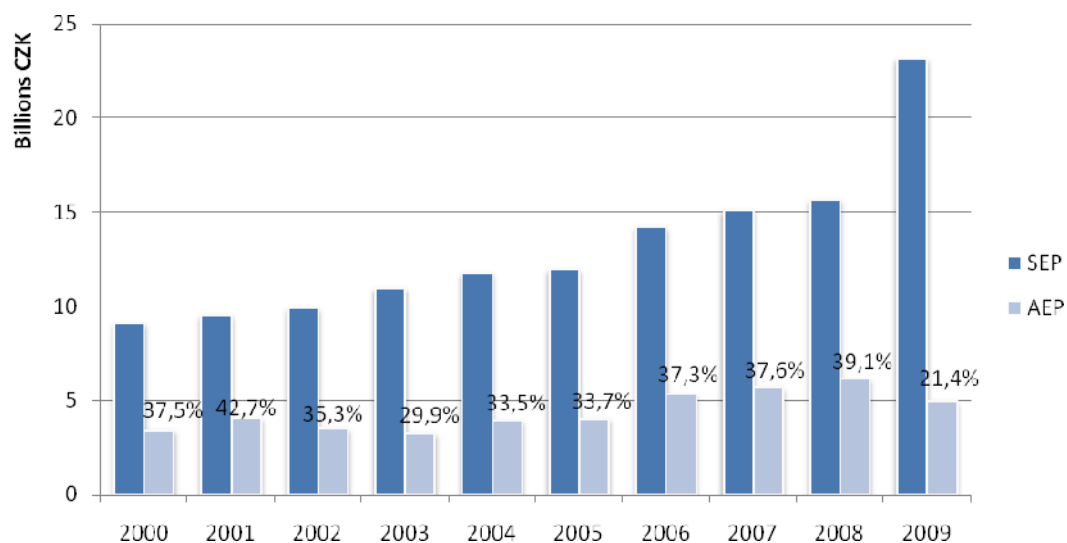
Similarly to all other countries, the Czech Republic is running both active and passive labour market policy. There are always differences between countries in the application of the employment policies, but fundamentally, active labour market policy aims at creating jobs and bringing the unemployed people back to work. In the contrary, passive labour market policy includes mainly the benefits for people who lose jobs. Therefore, governments always set higher priority on active employment policy.

The new employment policies of the Czech Republic were formed immediately after the revolution. The basic legislative framework has been defined by legislations such as the Employment Act no. 1/1991 and the Act no. 9/1991 on Employment and Competence of the Czech Republic's Authorities in respect of Employment.

Active employment policy is not only focusing on job seekers, but also focuses on people in employment, but their position may be at risk. Therefore, its efforts are not only to create jobs but to prevent unemployment as well. Among measures taken by the active labour market policy such as retraining, investment incentives, transport contribution for employees, contribution towards recruitment costs etc, the most important and effective one is retraining as it is essential for the job seeker's future employment.

In order to perceive the effectiveness of active employment policy, it is necessary to look at the relation between the annual expenditure for active employment policy and the results of the labour market. Graph 7 shows that, since 2000 the budget spent for active employment policy has been maintained at more or less 35% of the whole expenditure for employment policies. In 2009, the proportion of active employment policy was reduced to as low as 21,4%, but because the whole expenditure was much higher than the previous year (34% higher), consequently the amount was not lower than the past years.

**Graph 7: Expenditure of Active Employment Policy (AEP)  
as percentage of State Employment Policy (SEP)**



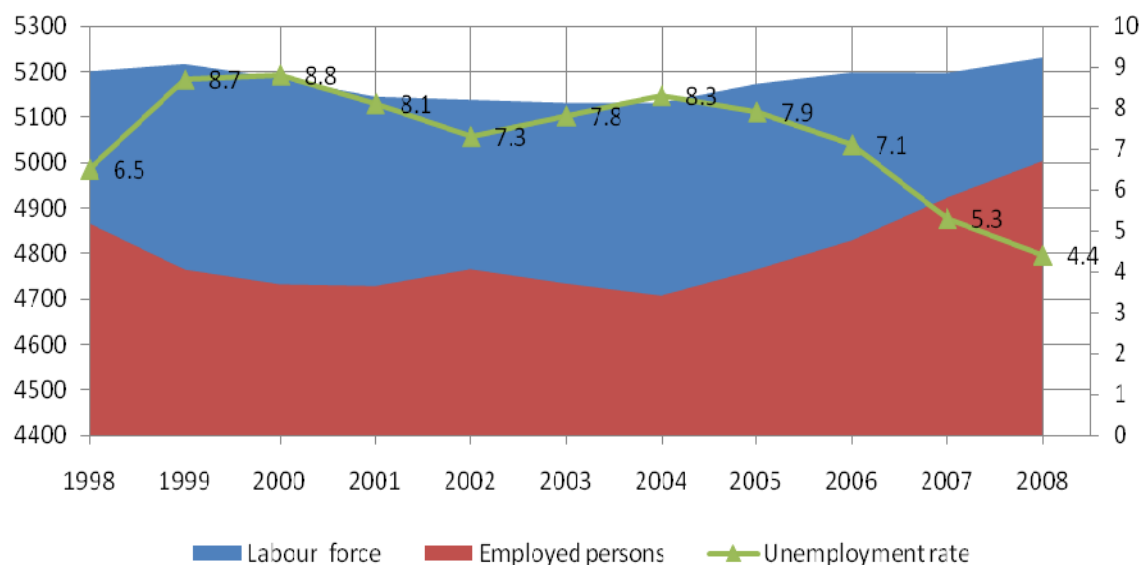
*Source: Ing. Hana Šechová: Výdaje na SPZ souhrnný pohled 1991-2009. MPSV.*

With regards to the performance of the labour market, Graph 8 reflects pretty good results. While the labour force remains stable over the years the number of persons to find job started to increase since 2004 which meant that the unemployment rate started to decrease.

The performance of the labour market depends on several factors of the economy, but in general term, the Czech Republic has been successful in keeping a stable unemployment rate since 1999 to 2004 and reducing it from 2005. Active employment policy has surely made a significant contribution to this result. Recent studies on employment and unemployment of the Czech labour market have found some figures that reflect the effectiveness of the retraining courses as the main tool of active employment policy. In 2007, retraining courses were attended by 63.417 job seekers and employees (of which 6.386 continued the retraining started in 2006). There were approximately 48,2% of job seekers were reemployed within 12 months after attending retraining courses, of which 57,7% could find job only after 3 months or less after attending retraining. In 2008, the number of retraining participants was as low as 43.732 job seekers and employees (of which 4.787 continued retraining from 2007). The proportion of retrained job seekers who

found job within 12 months was around 48,2%, an exact number as of 2007, among which, 53,7% could find job 3 months or less after attending retraining<sup>8</sup>.

**Graph 8: Labour market performance**



*Source: Czech Statistical Office, own graph*

#### IV. Conclusion

Stable development without strong fluctuation is the main characteristic of the labour market of the Czech Republic. Throughout the transformation process as well as after joining the European Union, the labour force of the country always accounts for more than half of the total population. This stability is preserved thanks to several reasons in which an effective active employment policy is an important factor. We all know that active employment policy is costly but it's a meaningful expenditure. Teaching a man to fish is always better than giving him a fish. Another factor that contributes to the stability of the labour market of the Czech Republic is that the country has not been so much affected by emigration. The proportion of Czech citizens to leave their country has never exceeded 1% of its population and thus has not caused serious imbalance of the labour market. Nevertheless, the Czech Republic is experiencing a major problem in the labour market structure when the share of long term unemployment rate always accounts for more than 50% of the whole unemployment. This problem cannot be settled overnight. I see 2 major

<sup>8</sup> Analýza vývoje zam. stnaností a nezam. stnaností v roce 2007, 2008, MPSV.

challenges to the efforts to bring down the long term unemployment rate. First, it is not simple to mobilize the Roma to work as they are still facing strong marginalization. Second, the generous social assistance system towards low and unskilled people. When one receives better money from the Government than wage he is able to earn, there is no reason for him to deny the former.



## CHAPTER II

### MIGRANT WORKERS IN THE CZECH REPUBLIC

#### I. The status of migrant workers in the Czech Republic

*International migration is caused by geographic differences in the supply and demand for labor but the decisive factor is wage differential because it causes workers from the low-wage country to move to the high-wage country.*<sup>9</sup>

Since the beginning of the 1990s, especially during the “Czech miracle” period, the Czech Republic became an attractive destination for foreign workers, especially from poorer countries such as Slovakia, Mongolia, Vietnam, and Kazakhstan. It’s the socio-economic situation that made the Czech Republic the final destination. With regards to socio-politic factor, the Czech Republic has now become a democratic nation and in term of economic factor, the country has made impressive economic performance and became the leading country in Centre and Eastern Europe. Let’s take a look at Table 13, in the period from 1990 – 1995, average wage growth rate reached 5,9% which was the second highest in OECD.

In the period of recession since 1997, while unemployment rate increased rapidly, the proportion of foreign workers in the Czech labour market didn’t fall accordingly. The segmented labor market theory (Piore 1979) or the dual labor market theory (Doeringer and Piore 1971; Piore 1980) could explain the reason. While many jobs were lost in the upper tier of the labour market or primary sector (where workers enjoy high wages, high fringe benefits, high employment security), there was a lack of local workers on the lower tier or the secondary sector of unfavorable jobs (low wage, hard work, low social status). This condition maintained the demand of low skilled workers from other countries.

**Table 13: Average annual wage 2007**

	Level of average wages in 2007 in current USD	Level of average wages in 2007 in USD PPPs	Average annual growth rates of real average wages <sup>b</sup> (%)			
			1990-1995	1995-2000	2000-2005	2006-2007
Australia	51 781	42 019	1.0	2.1	1.2	1.1
Austria	46 072	38 632	1.2	0.6	0.9	-0.1

<sup>9</sup> *Population and Development Review*, vol. 19, No. 3 - Section: Theories of International Migration: A review and appraisal. Population Council, Sep., 1994

Belgium	51 190	40 591	2.1	1.3	0.3	-0.1
Canada	43 973	38 245	-0.2	2.0	1.1	2.6
<b>Czech Republic</b>	<b>13 527</b>	<b>18 300</b>	<b>5.9</b>	<b>3.0</b>	<b>5.1</b>	<b>3.5</b>
Denmark	63 731	39 143	0.8	1.6	2.0	0.3
Finland	45 350	31 211	-0.1	1.4	2.4	1.3
France	45 167	35 430	1.1	1.3	1.4	1.0
Germany	43 056	35 292	2.1	0.8	0.3	0.0
Greece	28 424	26 929	3.2	2.4	2.8	2.2
Hungary	14 788	18 922	5.1	0.3	7.0	0.2
Ireland	64 556	44 013	2.5	2.2	2.7	3.2
Italy	36 021	29 198	-0.7	0.8	0.3	0.1
Japan	36 270	31 773	1.3	0.5	0.3	-0.4
Korea	25 882	27 586	4.8	0.1	2.1	1.7
Luxembourg	66 035	49 663	1.9	1.2	1.1	1.9
Netherlands	51 866	42 514	0.3	0.0	0.4	3.3
Norway	66 075	40 177	1.2	2.2	3.2	6.0
Poland	11 658	15 446	3.0	5.0	1.0	0.9
Portugal	21 175	21 161	1.1	2.6	0.3	1.0
Slovak Republic	11 486	15 393	6.7	5.3	3.4	6.1
Spain	31 661	28 871	1.9	-0.5	-0.1	0.2
Sweden	46 570	33 586	-0.3	3.3	1.4	3.7
Switzerland	64 170	42 980	1.0	0.9	1.1	0.3
United Kingdom	53 114	40 825	1.0	2.6	1.6	1.4
United States	49 486	49 486	1.0	2.9	0.4	1.0
OECD Europe	42 156	33 850	1.4	1.4	1.0	1.0
EU15	43 710	34 978	1.1	1.2	0.8	0.8
EU19	41 287	33 551	1.4	1.4	1.0	0.9
Total OECD	43 973	39 701	1.3	1.9	0.7	0.9

*Source: OECD Employment Outlook 2009, OECD*

Table 14 shows us that since 1995 until 2003, the number of foreign workers always accounted for more than 2% of the total workforce available in the labour market. The proportion of migration from European Union and the rest of Europe was the largest percentage, but were declining over time while that of Asia was increasing year by year.

**Table 14: Foreign employment in the Czech Republic (pre-accession)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total</b>	111859	143246	130767	111247	93466	103647	103652	101179	105738
<i>% of total workforce</i>	2.2	2.8	2.5	2.1	1.8	2.0	2.0	2.0	2.1
<b>EU</b>	75893	89903	88447	76369	64878	76199	74651	68638	70334
<i>% of total</i>	67.8	62.8	67.6	68.6	69.4	73.5	72.0	67.8	66.5
<b>Rest of Europe</b>	31608	48867	37894	30411	24509	23212	24555	27406	29552
<i>% of total</i>	28.3	34.1	29.0	27.3	26.2	22.4	23.7	27.1	27.9
<b>Africa</b>	299	353	373	372	330	311	238	238	258
<i>% of total</i>	0.3	0.2	0.3	0.3	0.4	0.3	0.2	0.2	0.2
<b>America</b>	2061	2015	1865	1779	1770	1764	1625	1813	1772
<i>% of total</i>	1.8	1.4	1.4	1.6	1.9	1.7	1.6	1.8	1.7
<b>Asia</b>	1849	1968	2047	2163	1839	2012	2436	2934	3711
<i>% of total</i>	1.7	1.4	1.6	1.9	2.0	1.9	2.4	2.9	3.5
<b>Australia &amp; Oceania</b>	133	117	123	140	132	139	128	145	110
<i>% of total</i>	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Others</b>	16	23	18	13	8	10	19	5	1
<i>% of total</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Source: Research Institute for Labour and Social Affairs, own computation*

Since the accession to the European Union, the Czech economy returned to its growth track with per-capita GDP reached 82% of the average of the EU-27. The application of the rule of free movement of labour within the member states has made the migration of the workforce in and out the country more easily than ever. This increased the interest of foreigners to join the labour market of the Czech Republic. Meanwhile, in this new context, huge foreign investment in the country, especially in manufacturing sector such as automotive industry increased the demand of workers of all levels of skills and professions that the domestic market couldn't supply. Therefore, the need to import foreign work force became urgent. The number of foreign workers in the Czech Republic rose rapidly from 107.984 in 2004 to 284.551 in 2008 (Table 15). In 2009, the Czech Republic began to suffer the impact of the global financial crisis. The country's manufacturing industry, especially automotive, had to cut down or postpone its production and lay off workers, the number of registered foreign employment decreased to 230.709 people, lower than the year 2004.

It's clear in Table 15 that foreign workers from member states of EU/EEA (European Union/European Economic Area) and Switzerland always account for more than 60% of the total foreign employment in the Czech Republic and the rest belong to those from non-EU countries. Among the EU/EEA states, the Slovak Republic always has the highest number of emigrants in the Czech Republic. In 2009, the Slovak Republic occupied 42,6% of the total foreign workers in the country. Taking the lead in term of number of emigrants among non-EU/EEA states is Ukraine with a share of 24,9% in 2009. Workers from Asian countries also have a fairly high proportion, of which Mongolia accounted for 4,6% in 2008 and 1,8% in 2009 and Vietnam 5,7% in 2008 and 1,4% in 2009. From this analysis, it is possible to draw a *conclusion* that the Czech labour market is attractive only to people from less developed countries but not to the whole Europe. Wage and other social condition for employment such as social security in the Czech Republic are lower in comparison to Western Europe and richer countries outside the continent such as the United States or Canada and consequently cannot produce a pull force to workers from these countries.

**Table 15: Foreign employment in the Czech Republic (after accession)**

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Total</b>	107 984	151 736	185 075	240 242	284 551	230 709	215 367
<i>% of labour force</i>	2.1	2.9	3.6	4.6	5.4	4.4	N/A
<b>By Categories</b>							
EU/EEA <sup>10</sup>	72 840	93 867	116 846	144 751	141 101	139 315	143 997
<i>% of total</i>	67.5	61.9	63.1	60.3	49.6	60.4	66.9
Non-EU/EEA	35 144	57 869	68 229	95 491	143 450	91 394	71 370
<i>% of total</i>	32.5	38.1	36.9	39.7	50.4	39.6	33.1
<b>By Countries</b>							
Slovakia	59 818	75 297	91 355	101 233	100 223	98 192	100 727
<i>% of total</i>	55.4	49.6	49.4	42.1	35.2	42.6	46.8
Ukraine	22 399	40 060	46 155	61 592	81 072	57 478	42 139
<i>% of total</i>	20.7	26.4	24.9	25.6	28.5	24.9	19.6
Mongolia	1 585	1 800	2 814	6 897	12 990	4 205	3 548
<i>% of total</i>	1.5	1.2	1.5	2.9	4.6	1.8	1.6
Vietnam	183	256	692	5 425	16 254	3 670	3 132
<i>% of total</i>	0.2	0.2	0.4	2.3	5.7	1.6	1.5
Germany	1 303	1 743	2 383	2 847	2 774	2 989	3 070

<sup>10</sup> The EEA is the European Economic Area whose members include all members of the EU plus Bulgaria, Romania, Iceland, Liechtenstein and Norway.

<i>% of total</i>	<i>1.2</i>	<i>1.1</i>	<i>1.3</i>	<i>1.2</i>	<i>1.0</i>	<i>1.3</i>	<i>1.4</i>
England	741	1 119	1 584	1 804	2 075	2 177	2 382
<i>% of total</i>	<i>0.7</i>	<i>0.7</i>	<i>0.9</i>	<i>0.8</i>	<i>0.7</i>	<i>0.9</i>	<i>1.1</i>
Switzerland	49	76	87	106	120	0	148
<i>% of total</i>	<i>0.05</i>	<i>0.05</i>	<i>0.05</i>	<i>0.04</i>	<i>0.04</i>	<i>0.00</i>	<i>0.07</i>
Others	21 906	31 385	40 005	60 338	69 043	61 998	60 221
<i>% of total</i>	<i>20.3</i>	<i>20.7</i>	<i>21.6</i>	<i>25.1</i>	<i>24.3</i>	<i>26.9</i>	<i>28</i>

*Source: Ministry of Labour and Social Affairs, own computation*

Negative demographic development also acted as an important factor to facilitate migration process into Europe, including the Czech Republic. According to World Population Prospect (2008 revision), between 2009 and 2050, Europe's population as a whole is projected to shrink by 10,2% from 732 million to 657 million. The countries that face strong decline in population include Germany, whose population is projected to reduce 14,6%, from 82 to 70 million, Poland's by 15,7%, from 38 to 32 million, and Italy's by 4,68%, from 59.8 to 57 million. As the other side of a coin, negative population growth is likely to cause aging population. Between 2009 and 2050, the percentage of the share of people aged 60 and older in the total population in the above mentioned countries is forecasted to increase from 25,7% to 39,5%, from 18,8%, to 38%, and from 26,4% to 39,1%, respectively. Graph 9 reflects a gloomy fact that from this year until 2050, the world population ageing speed is 2,75% per ten years and by then 22% of the world population will have aged 60 or older. Countries of more developed region including Europe always experience higher share of population aged 60 and over. The ageing speed for this region is projected at 3% per ten years and the will reach 33% in 2050.

In the case of the Czech Republic, between 2009 and 2050, Czech population is forecasted to fall from 10.369.000 to 10.294.000, which is only 0,7% less. Even the decline of population is not as high as other countries but owing a moderate population, a small decrease can anyway have negative effect. Apparently, the population of age 60 and older will increase significantly from 21,8% to 34,5% of the whole population. We can learn from Table 16 below that negative population growth pulled down the growth of the people at working age in the national economy (less than 1% year-on-year) and consequently caused a shortage of workforce.

**Table 16: Population by age and highest education attainment**

(Thousand persons)

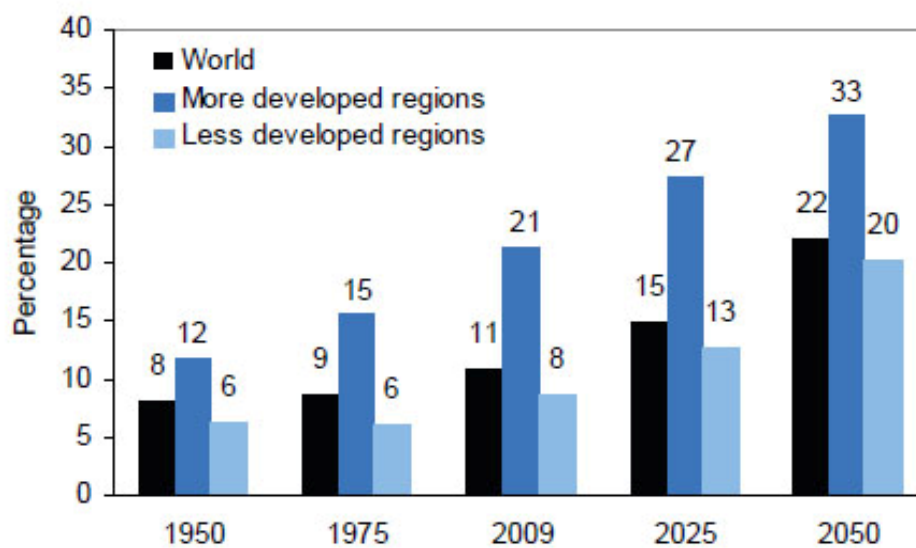
<b>TOTAL POPULATION</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>
<b>Total</b>	<b>10,333.6</b>	<b>10,315.3</b>	<b>10,293.6</b>	<b>10,272.1</b>	<b>10,205.0</b>	<b>10,211.6</b>	<b>10,264.8</b>	<b>10,421.9</b>
Age group								
0 to 14	1,979.0	1,867.8	1,770.4	1,685.6	1,605.8	1,538.3	1,491.4	1,478.1
15 to 19	898.3	831.8	752.6	690.5	669.9	661.0	651.8	640.9
20 to 24	795.5	879.4	924.4	871.6	791.6	725.7	695.3	702.3
25 to 29	686.6	693.7	742.3	846.7	897.0	900.0	845.9	796.3
30 to 34	658.1	693.8	708.4	688.3	710.7	794.0	884.3	938.2
35 to 39	731.7	669.7	627.9	681.7	697.5	687.7	699.5	768.9
40 to 44	815.5	796.6	763.2	696.5	643.8	657.1	695.7	710.8
45 to 49	800.9	832.4	812.5	799.0	768.4	720.2	664.2	648.7
50 to 54	625.6	681.4	775.4	801.2	800.8	784.7	769.6	741.3
55 to 59	483.8	511.8	558.8	628.0	700.7	751.9	780.9	767.4
60 to 64	509.1	476.7	448.2	462.9	502.4	564.5	619.7	695.8
65 or more	1,349.6	1,380.2	1,409.3	1,420.1	1,416.3	1,426.6	1,466.3	1,533.3
<b>Aged 15 or more</b>	<b>8,354.6</b>	<b>8,447.5</b>	<b>8,523.2</b>	<b>8,586.4</b>	<b>8,599.1</b>	<b>8,673.3</b>	<b>8,773.4</b>	<b>8,943.8</b>
Basic, pre-primary and without education	2,245.6	2,151.7	2,034.0	2,072.3	1,916.8	1,810.5	1,698.1	1,675.5
Secondary education without GCE	3,247.1	3,330.6	3,356.4	3,199.4	3,216.9	3,319.5	3,264.1	3,197.8
Secondary education with GCE	2,231.5	2,307.4	2,460.3	2,579.1	2,646.2	2,679.1	2,855.8	3,019.8
Tertiary education	629.5	656.9	672.4	735.2	813.7	862.2	954.6	1,050.0

*Source: Czech Statistical Office*

In concert with the decline of and higher aging population in Europe and advance countries, the situation in the former communist bloc and other developing countries such as higher population growth, more immense labour force, high unemployment or low wages etc increases the supply of labour for Europe. *Michael Kaser, Emeritus Professor at St. Antony's College, Oxford, and an expert on Eastern Europe, argued convincingly that*

*the supply will expand as well, due to the economic situation in the former communist bloc, where only Slovenia is projected to catch up economically with the EU over the next 15 years. Continuing high unemployment, price instability, and collapsing industrial production will generate millions of more economic migrants.*<sup>11</sup>

**Graph 9: Proportion of population aged 60 or over: world and development regions, 1950-2050**



*Source: United Nations: World Population Ageing 2009. New York, 2009*

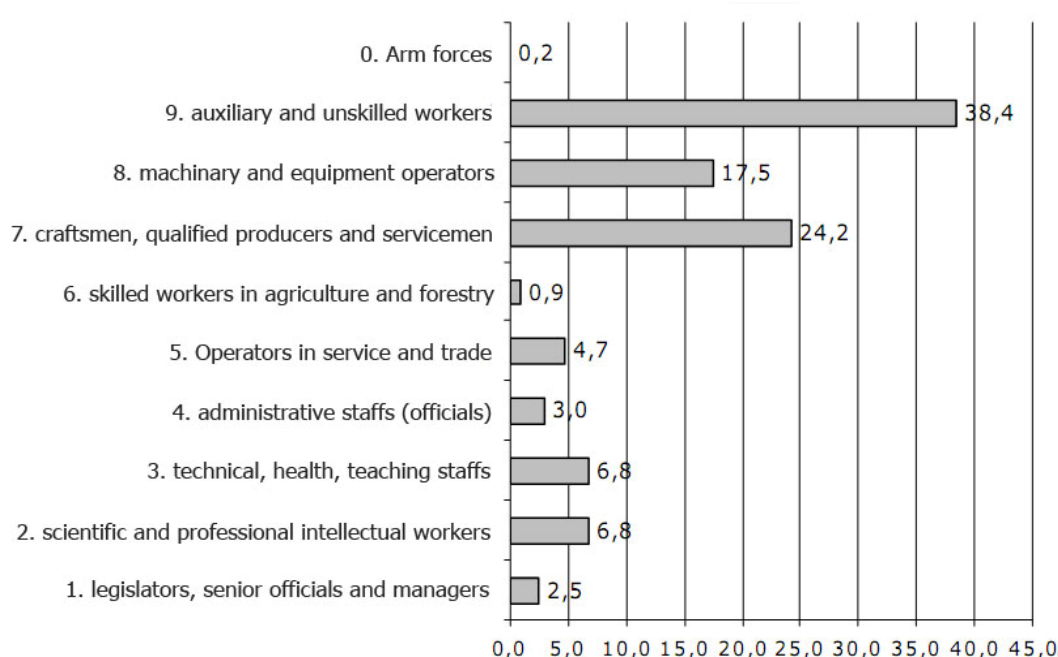
*The status of foreign workers* in the Czech labour market or elsewhere can be analyzed through studying the segmentation of the labour market in terms of classification of job skills required by employers and distribution of foreign workers in different sectors of the economy. To have a more appropriate classification of job requirement for migrants, Robert Trbola and Miroslava Rákoczyová used the ISCO classification (International Standard Classification of Occupations by the International Labour Organization) because it reflects the qualifications needed to perform the work but not the highest qualification achieved by the workers.

According to data from Graph 10, the qualification requirement of foreign workers in the Czech Republic were concentrated in three categories 7, 8 and 9, which can be commonly referred to as Manufacturing. The highest proportion (38,4%) was category 9 of auxiliary and unskilled workers where no qualification was required. Craftsmen, qualified

<sup>11</sup> Johan Berggren: *Ageing Europe 'needs to welcome strangers'*. Europaeum Review Volume 5. 04/01/2003

producers and servicemen (category 7) and Machinery and equipment operators (category 8) were occupied by 24,2% and 17,5% respectively, which were the second and third highest proportion. Collectively these three categories made up 75,1% of the total classification of qualification occupied by foreign workers which required no or low skill profession.

**Graph 10: ISCO classification of qualification occupied by foreign workers in the Czech Republic (as of 31.12.2008)**



*Source: Robert Trbola a Miroslava Rákoczyová: Vybrané aspekty života cizinců v České republice. Research Institute of Labour and Social Affairs, 2010.*

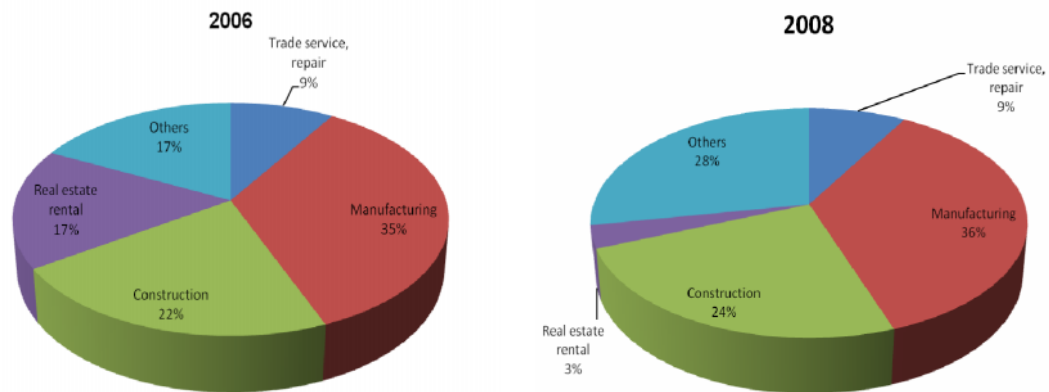
Graph 11 exhibits the change of qualification distribution of foreign workers in the Czech labour market between 2006 and 2008, from which, we see that there is minor change in the proportion. The manufacturing and construction sectors remain the 2 highest proportions. The only significant change is the decrease of real estate and rental.

The distribution of foreign employment in ISCO categories of the ten most frequent citizenships in Table 17 shows that, in 2008, workers from the former Soviet Union countries, Vietnam and new member states are concentrated in the three lowest categories of manufacturing (7,8,9). The majority of workers from Uzbekistan (87%), Ukraine (66%), Moldova (56%) and Bulgaria (34%) work as auxiliary and unskilled labor, while 42,6% of



Vietnamese and 40,5% of Mongolian workers work as machinery and equipment operators.

**Graph 11: Sectoral distribution of employment**



*Source: Research Institute For Labour And Social Affairs, own graph*

In order to have a general look to the participation of citizens from more developed countries in the Czech labour market, I rely on the data from Robert Trbola a Miroslava Rákoczyová as shown in Table 17 and 18 below. In 2006, Germany and the United Kingdom were included in the top 10 foreign citizenships in the Czech Republic. The majority of workers from these 2 countries participated in such works that require high skills and education, namely in legislators, senior officials and managers (category 2), Germany occupied 35,5% and the United Kingdom shared 22,9%; in scientific and intellectual works (category 2) the United Kingdom had the highest share of 46,6% and Germany of 24,1%. In category 3 of technical, health, teaching staffs, 2 countries had the same share of more or less 25% of their citizens. However, after 2 years these 2 countries were lifted out of the top 10 list. The reason was that while number of citizens from Germany and the United Kingdom in the Czech Republic increased slowly, immigrants from less developed countries grew much faster.

**Table 17: Share of ISCO classification of foreign workers  
from top 10 citizenship (as of 31/12/2008)**

<b>ISCO (%)</b>	<b>Total registe- red foreign ers</b>	<b>Slovakia</b>	<b>Ukraine</b>	<b>Poland</b>	<b>Vietnam</b>	<b>Mongolia</b>	<b>Moldova</b>	<b>Bulgaria</b>	<b>Uzbekistan</b>	<b>Romania</b>	<b>Russia</b>
Total	284 551	100 222	81 072	20 680	16 254	12 990	8 635	5 108	3 611	3 605	3 314
1. Legislators, senior officials and managers	2,5	1,9	0,2	1,3	0,1	0,0	0,0	1,0	0,0	0,6	8,7
2. Scientific and professional intellectual workers	6,8	9,4	0,9	4,4	0,4	0,1	0,6	5,9	1,2	11,1	21,2
3. technical, health, teaching staffs	6,8	10,7	1,0	4,3	4,7	0,1	0,9	3,7	1,0	4,7	17,5
4. administrative staffs (clerks)	3,0	5,2	0,9	1,1	0,3	0,4	0,6	3,3	0,5	2,7	11,2
5. operators in service and trade	4,7	8,6	1,4	1,2	2,2	0,3	1,1	4,6	0,4	1,3	7,7
6. skilled workers in agriculture and forestry	0,9	0,9	1,5	0,2	0,3	0,2	1,3	1,0	0,2	1,9	0,3
7. craftsmen, qualified producers and servicemen	24,2	26,3	19,2	44,0	37,8	31,1	25,5	25,4	5,0	30,6	5,3
8. machinery and equipment operators	17,5	18,4	9,1	31,3	42,6	40,5	10,0	21,0	4,7	19,6	6,7
9. auxiliary and unskilled workers	33,4	18,2	65,6	12,0	11,7	27,3	59,9	34,0	86,9	27,6	21,3
10. armed forces	0,2	0,4	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,2
	100	100	100	100	100	100	100	100	100	100	100

*Source: Robert Trbola a Miroslava Rákoczyová: Vybrané aspekty života cizinců v České republice. Research Institute of Labour and Social Affairs, 2010.*

**Table 18: Share of ISCO classification of foreign workers  
from top 10 citizenship (as of 31/12/2006)**

ISCO (%)	Total regist- e-red foreign ners	Slovakia	Ukraine	Poland	Moldova	Mongolia	Germany	Russia	Bulgaria	UK	Romania
Total	185 075	91 355	46 155	17 149	3 369	2 814	2 383	2 380	1 953	1 584	1 240
1. Legislators, senior officials and managers	3,0	1,5	0,4	1,2	0,3	0,1	35,5	9,9	2,4	22,9	0,8
2. Scientific and professional intellectual workers	7,7	7,6	1,2	4,5	0,9	0,4	24,1	23,3	11,3	46,6	18,0
3. technical, health, teaching staffs	7,5	9,5	1,2	3,5	1,5	0,2	25,3	20,5	7,3	25,7	6,9
4. administrative staffs (clerks)	3,4	5,0	0,9	0,8	0,7	1,8	4,4	14,2	1,8	2,4	3,0
5. operators in service and trade	5,1	7,5	1,2	0,6	1,2	0,5	1,4	5,9	3,7	1,1	1,5
6. skilled workers in agriculture and forestry	1,4	0,9	2,8	0,2	6,9	0,0	0,3	0,4	1,1	0,1	1,6
7. craftsmen, qualified producers and servicemen	28,0	27,8	28,0	46,5	33,7	45,0	5,9	5,9	37,8	0,8	37,6
8. machinery and equipment operators	16,9	20,9	9,0	28,7	14,2	28,6	2,3	5,8	11,3	0,0	21,5
9. auxiliary and unskilled workers	27,0	19,3	55,3	14,1	40,5	23,4	0,8	14,1	23,3	0,4	9,2
0. armed forces	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0
	100	100	100	100	100	100	100	100	100	100	100

*Source: Robert Trbola a Miroslava Rákoczyová: Vybrané aspekty života cizinců v České republice. Research Institute of Labour and Social Affairs, 2010.*

From the analysis of data from tables 17 and 18, one can have a basis to affirm that citizens from less developed countries migrate to the secondary tier and those from more developed countries enter the primary tier of the labour market of the Czech Republic. This assessment also lead to another judgment on the status of foreign workers in the Czech Republic as that socio-economic level of the source country of labor migration is a factor which partly determines the position of foreigners in the labor market in the Czech Republic.

## **II. The impacts of the global economic crisis on migrant workers in the Czech Republic**

The global financial crisis began in the USA in 2008 and quickly transformed into a global crisis since the second half of 2008. The crisis has brought the world economy to the worst recession since 1930s. For EU, the impact of the crisis was serious economically and as a natural consequence the labour market of the continent suffered negative effects. After many years of relatively high economic and employment growth, the global economic crisis is taking Europe back to growth levels not seen for decades. *Annual GDP growth dropped from 2.9 per cent in 2007 to 0.9 per cent in 2008 in the EU. By the end of 2008 over half of the economies of EU Member States were either in recession or in the process of entering one. From 2008 to 2009 the average unemployment rate for the EU rose from 7.0 per cent to 9.9 per cent. Although growth in the euro area resumed in the third quarter of 2009, the labour market is expected to remain weak*<sup>12</sup>.

The first and foremost evidence of impact of economic crisis on migration and foreign workers was the decline in the growth rate of migration to members states of the European Union, especially to countries where immigration was large before the crisis. During the economic recession, migrants tend to be the first to lose jobs. There is one common reason to explain this in all countries. Migrant workers often concentrate in sectors that are highly sensitive to the business cycle such as construction or retail which does not require high education or skills.

The Czech Republic started to experience the impacts of the global financial crisis since the third quarter of 2008. GDP growth rate declined from 6,1% in 2007 to 2,5% in 2008 and even -4,2% in 2009 (see Table 3, page 9 for more detail). In the labour market, while the unemployment rate of the whole country increased sharply from 4,4% in 2008 upto 6,7% in 2009, the number of migrant workers declined distinctly from 284.551 to 230.709 (Graph 11). Coping with the decline of demands, firms had to cut down production and consequently to lay off workers. Foreign employees working on contracts were the main subjects of the layoff decisions. Take automotive industry as an example. Car makers were among the most effected industries which had to face a shortfall in production due to low demand. According to Automotive Industry Association data, the

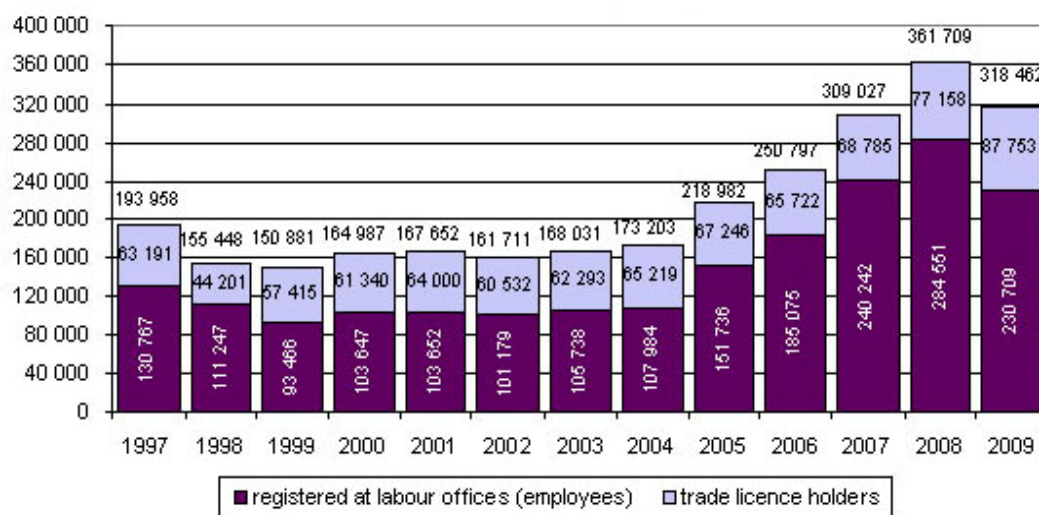
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<sup>12</sup> IOM Thematic study: *Migration and the Economic Crisis in the European Union: Implications for Policy*. 2009.

whole industry had to fire 19.000 out of their 128.500 employees, of which 11.000 were regular employees and 8.000 were foreign workers hired by agencies<sup>13</sup>. Skoda Auto, the biggest car producer, had to cut down 30% of its production in 2009 and the company's spokesman, Mr. Jaroslav ěrný, said: *"We are not going to have layoffs. There are a few workers hired by us via agencies that we will let go. The workers are Polish, Slovak, a few Czech and Vietnamese"*<sup>14</sup>.

There is a clear reaction of migrant workers to the impacts of economic recession in many European countries that is inter-sector mobility. Migrant workers sought new working opportunities in sectors other than those in which they were initially employed. As unemployment rate increased, an increasing number of migrants applied to change their visa purpose to self-employed. The number of trade license issued by Czech authority in 2009 increased 13,7%, from 77.158 in 2008 to 87.753.

**Graph 12: Employment of foreigners in the Czech Republic**



Source: Czech Statistical Office

<sup>13</sup> [http://www.ceskenoviny.cz/zpravy/czech-car-makers-lay-off-19-000-people-during-crisis/398670&id\\_seznam=2184?id=398670](http://www.ceskenoviny.cz/zpravy/czech-car-makers-lay-off-19-000-people-during-crisis/398670&id_seznam=2184?id=398670)

<sup>14</sup> Stephan Delbos: *Layoffs to strike unskilled laborers*. Article published on the Prague Post. 19/11/ 2008.

### **III. The essence of the project “Active Selection of qualified foreign workers”**

In order to attract qualified foreign workers to fill the local demand, the Czech Government designed and launched a project called “Active selection of qualified foreign workers” which is understood as one of the active immigration policies. The pilot phase of the project started in July 2003 and lasted for 5 years. The purpose of this phase is to test the operating of a permanent immigration scheme therefore it's applied for only three countries: Bulgaria, Croatia and Kazakhstan. Now in the second phase, the project is open for participants from 51 countries. Selected foreign workers and their family will be given permanent residence in the Czech Republic only after one and a half year (for highly qualified workers category) or two and a half years (for standard category of qualified workers), that is much shorter than standard 5 years application.

To be selected in this project is not much simple. Applicant must meet several requirements such as applicants must be at least secondary school graduates and must find legal employment in the Czech Republic on their own. The most difficult requirement is that applicants must obtain at least 25 points and maximum 66 points by a computerized selection procedure. This is a complicated point system that is similar to that of Quebec. The criteria for point include: qualification, work experience, language skills, age (preferably 23 – 35), family situation etc.

Expressing the expectation of the Czech Republic from the project, Mr. Michal Meduna, Head of the Department for Migration, the Ministry of Labour and Social Affairs has said: *"We are truly trying to attract qualified foreign workers to the Czech Republic together with their families and we are hoping that they will settle here permanently"*<sup>15</sup>.

Tables 19 and 20 have the results of the project. From its start until 31 December 2009, there were 1.617 applicants selected under this project. In the first six months of 2010, 149 new applicants were added to the total sum. With regard to types of profession, most of the selected persons were in information technology, 480 persons (27% of total). Administrative, technical and scientific sectors received 183, 170 and 134 persons respectively, which account for 10% or less of the total selected persons. This limited result reflects low efficiency of the project.

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<sup>15</sup> Daniela Lazarová: *Czech Republic needs qualified foreign workers*. 02-08-2003  
(<http://www.radio.cz/en/section/magazine/czech-republic-needs-qualified-foreign-workers>)

**Table 19: Results of the project "Selection of qualified foreign workers"  
by profession**

Type of professions	31 Dec. 2008		31 Dec. 2009		30 June 2010	
	Persons	%	Persons	%	Persons	%
Technical	130	10	159	10	170	10
Information technology	326	25	419	26	480	27
Health/medicine services	52	4	72	4	80	5
Juristic	3	0	4	0	4	0
Artistic	21	2	22	1	26	1
Administrative	137	11	167	10	183	10
Manager	50	4	85	5	106	6
Scientific specialist	99	8	124	8	134	8
Others	463	36	565	35	583	33
<b>Total</b>	<b>1 281</b>	<b>100</b>	<b>1 617</b>	<b>100</b>	<b>1 766</b>	<b>100</b>

*Source: Milada Horáková: International labour migration in the Czech Republic - Bulletin No. 23, 24,25. Research Institute For Labour And Social Affairs*

In terms of level of education attained by selected applicants, most of them have university degree (948 persons) and bachelorship degree (322 persons). Only 111 doctorate graduates enjoy the program. In terms of country of origin, most applicants were from Ukraine (496), Russian (286), Bulgaria (176) and Belarus (170) while there were only 7 from the United States and 13 from Canada.

**Table 20: Results of the project "Selection of qualified foreign workers"  
by citizenship and education attainment (by 30/06/2010)**

Citizenship	Secondary vocational without A - Levels examina-tion	Secondary general with GCE A- Levels examina-tions	Secondary vocational with GCE A- Levels examina-tions	Higher vocational	Bachelor -ship degree	Univer-sity degree	Docto-rate degree	Total
Albania	0	0	0	0	1	0	0	1
Argentina	0	0	1	0	0	0	0	1
Armenia	0	0	0	2	2	8	0	12
Belarus	6	9	10	2	21	116	6	170
Bosna and Hercegovina	0	11	5	0	4	5	0	25
Brazil	0	0	0	0	1	1	0	2
Bulgaria	4	15	78	12	9	48	10	176

Canada	0	0	0	2	7	3	1	13
Costa Rica	0	0	0	0	1	0	0	1
Croatia	0	2	3	0	3	6	0	14
Egypt	0	0	0	0	1	0	0	1
Georgia	0	1	0	0	5	3	1	10
India	0	3	0	2	45	25	8	83
Indonesia	0	0	0	0	2	0	0	2
Israel	0	0	0	0	0	2	0	2
Kazakhstan	1	4	10	3	5	26	2	51
Kyrgyzstan	0	0	0	0	0	1	0	1
Macedonia	0	4	6	0	13	18	1	42
Malaysia	0	0	0	0	5	0	0	5
Mexico	0	0	0	1	1	0	1	3
Moldova	5	5	11	5	17	29	4	76
Nepal	0	0	0	0	1	0	0	1
Philippines	0	0	0	0	5	0	1	6
Russian	1	5	10	2	16	226	26	286
Serbia	0	5	1	0	4	1	1	12
Serbia and Montenegro	0	4	6	0	15	32	0	57
Sri Lanka	0	0	0	1	0	0	0	1
Tajikistan	0	0	0	0	1	0	0	1
Turkey	0	0	0	0	21	6	1	28
Turkmenistan	0	0	0	0	1	0	0	1
Ukraine	10	37	46	20	51	311	21	496
United States	0	0	0	0	6	1	0	7
Uzbekistan	1	1	1	0	5	4	1	13
School-leavers in the CR	0	0	4	3	0	0	0	7
graduated in the CR with various citizenship	0	1	0	1	53	76	26	157
Total	28	107	192	56	322	948	111	1 764

*Source: Milada Horáková: International labour migration in the Czech Republic – Bulletin No. 25. Research Institute For Labour And Social Affairs*

After studying the results of the project, 2 conclusions have become clear that, firstly, the effect of the project is not corresponding to the expectation. The number of successfully selected applicants increased but at a sluggish speed. More than 1.700 foreign workers selected in 7 years is not a positive outcome. Secondly, the project seems not to be affected by the outbreak of the global financial crisis. While the total number of foreign



workers decreased in 2009, foreign employees selected under this project scheme kept growing gradually, even slowly. It's arguable that the object of the project "Selection of qualified foreign workers" is skilled workers while the main object of lay off decision, as a reaction of firms to the crisis, was low and non skilled workers.

#### **IV. Green card system: can foreign workers benefit?**

The green card is a new form of residence permit for employment purposes in the Czech Republic. Just like the project "Selection of qualified foreign workers", the green card is applicable for non-EU countries within approved list only. Being considered as a solution to ease up the entry to the labour market for foreigners who have qualifications for which the Czech Republic is in need, the green card system has certain advantages: it combines three permits in one document (work permit, employer's permit to recruit workers abroad, and the visa) so only one permit will be needed. According to Mr. Pavel ižinský<sup>16</sup> this improvement will save up to 2.500 Czech crowns in fees. The permit will be valid for two to three years. Beside this, the procedure to issue green card will be one month, much shorter than four months or more as it used to take. Emphasizing the necessity of the green card system, Mr. Karel Machotka, Director of Corporate Environment Department, the Ministry of Industry and Trade has said: *"The need for this project was raised by the business sector that has been complaining that the Czech Republic does not have enough qualified workers to fill some specific vacancy types"*<sup>17</sup>.

However, the project still has some discouraging issues. The main problem is that applications have to be made at Czech Embassy in the applicant's country. Therefore, there's no guarantee that an applicant will be granted the green card even if he/she fulfills all the conditions, and the Embassy's officers, as usual, does not have the responsibility to provide an explanation as to why an application is turned down. Secondly, foreign worker will not be able to change employer without getting a new permit. And, again, new permit issuance in his case must depend on the officers of the Ministry of the Interior.

Although the green cards prove the efforts by the Czech Government to improve its administrative burden in the entry of foreign workers to the country, the situation of migrant employment in the Czech Republic remain essentially the same. The data in Table 21 reflects the poor functioning of the green card project. By June 2009, 6 months after the

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<sup>16</sup> an attorney working for the Counselling Centre for Citizenship, Civil and Human Rights.

<sup>17</sup> <http://www.workpermit.com/news/2007-09-10/europe/czech-republic-skilled-immigrant-green-card.htm>

launch of the project, only 1 green card was issued. Six month later, by December 2009, 50 new green cards were granted and by June 2010, 47 new green cards were issued, making up 98 green card bearers in total.

**Table 21: Number of green cards issued by types**

	Type A without key personnel	Type B	Type C	Key personnel	Green cards - total
6/2009	0	1	0	0	1
12/2009	6	22	14	9	51
6/2010	17	31	29	21	98

*Source: Ministry of Labour and Social Affairs*

### **III. Conclusion**

In sum, since the start of the transition process the labour market of the Czech Republic became an attractive destination for foreign workers especially after the accession to the EU. Migrant workers made up an important part of the workforce of the country, however the majority of them went to the secondary sector. Thus, the labour market of the Czech Republic is rather attractive to low skilled workers from developing countries of Asia and Eastern Europe than to those from advanced and industrialized Western countries.

With regards to the efforts to attract qualified foreign workers, through the research on 2 projects "Selection of qualified foreign workers" and green card, it's visible that the Czech Republic has not been much successful in inviting skilled foreigners to meet its demand. Three main reasons could be accepted here. The first one is still the complication in the selection procedure that discourages foreign applicants. Secondly, the average wage in the Czech Republic is lower as compared to the West. Annex 2 tells us the fact that average wage of the Czech Republic in 2007 stayed the third lowest within OECD members, which was unable to create a pull force towards qualified workers from abroad. Thirdly, there exists in the country a clear discrimination between two sources of foreign workers: *while people coming from highly developed countries occupy high-quality jobs in the so-called primary market, for the rest, almost the only available jobs are those that Czech workers have no interest in*<sup>18</sup>.

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<sup>18</sup> Miroslava Rakoczyova&Robert Trbola: *Social integration in the czech republic: long-ignored issue as an emerging social problem*. Research Institute for Labour and Social Affairs, Brno 2009.

## **CHAPTER III**

### **VIETNAMESE WORKERS IN THE CZECH REPUBLIC**

#### **I. Labour cooperation: past, present and perspective**

##### **1. Overview of labour cooperation between the Czech Republic and Vietnam**

It's widely admitted that export of labour has created a lot of benefits for the workers and their families as well as for the sending country. It contributes to lessening the burden of the local labour market and reducing the poverty in a part of the population. According to the Management Board of Labour Abroad under the Ministry of Labour - Invalids and Social Affairs of Vietnam, in 2007 Vietnam has sent 85.020 people to work abroad. By September this year, there have been approximately 500.000 Vietnamese workers working in 40 countries around the world. The majority of them enjoy stable net income of around 3 – 4 million VND/month (160 – 210 USD, for work in Malaysia), 7 – 12 million VND/month (370 – 630 USD, for work in Middle East, Eastern Europe) and 15 – 20 million VND/month (790 – 1.000 USD, for Japan, Korea, Taiwan). Each year, Vietnamese workers abroad remitted around 2 billion USD back home.

Vietnam and the Czech Republic have a long traditional relationship commencing by the establishment of the diplomatic relation as early as February 2<sup>nd</sup> 1950. On the basis of the fellowship within the Communist system, Czechoslovakia started to train Vietnamese experts in mechanical and light industry since 1956. The relationship and cooperation matters were inherited and further developed later on by the Czech Republic.

The bilateral cooperation in the field of employment began in the 1970s with a series of labour agreements signed in the years 1973, 1974, 1979 and 1980. These agreements created a wave of migration of Vietnamese workers, vocational learners, students and on-the-job trainees to Czechoslovakia. However, the wave was declining during the 1980s and ended in the 1990s at the expiries of those agreements. Table 22 below shows the reduction of the number of Vietnamese workers in the Czech Republic from 1991 – 1994. The figure for 1991 was of Czechoslovakia.

**Table 22: Vietnamese workers in the Czech Republic in the 1990s**

	<b>30/6/ 1991</b>	<b>31/12/ 1991</b>	<b>30/6/ 1992</b>	<b>31/12/ 1992</b>	<b>30/6/ 1993</b>	<b>31/12/ 1993</b>	<b>30/6/ 1994</b>	<b>31/12/ 1994</b>
<b>Total</b>	17003	5530	3375	1952	1032	436	154	11
<b>Czech</b>	..	..	2524	1420	822	339	135	10
<b>Slovakia</b>	..	..	851	532	210	97	19	1

*Source: Embassy of Vietnam in the Czech Republic*

After the termination of the international agreements, migrant workers had to make a vital decision: returning home or legalizing their stay in the Czech Republic. Owing the character of hardworking and the aptitude of running small business, *Vietnamese workers decided to stay, mostly on the basis of obtaining a business license and the initiation of business activities.*<sup>19</sup>

The migration of Vietnamese workers to the Czech Republic started to boom in 2006 at the urgent lack of local labour force. The situation made Czech businesses look for supplemental sources from a distant Vietnam. *It is because workers from Slovakia, Poland or Ukraine can no longer satisfy the demand for labour*<sup>20</sup>. However, most of the workers were from the rural and distant areas of Vietnam where the overall condition is far behind normal standards. They lacked skills, foreign language and knowledge of the culture and life style of a modern and industrialized country.

Table 23 compares several basic factors between Vietnam and the Czech Republic as a representative of labour receiving countries. The big difference in all contents in this Table explains the motivation of Vietnamese workers heading to the Czech Republic. The most important factor is the wide development gaps between the two countries in terms of GDP per capita and average monthly wage of the total employees in the economy. The two countries enjoy the same percentages of labour force in the population, but thanks to its tremendous population of 86 million people, 8 times higher than the Czech Republic, the absolute number of people in the labour force of Vietnam also exceeds more than 8 times as compared to that of the Czech Republic. As a consequence, this condition causes a huge

<sup>19</sup> Miroslava Rakoczyova & Robert Trbola: *Social integration in the czech republic: long-ignored issue as an emerging social problem*. Research Institute for Labour and Social Affairs, 2009.

<sup>20</sup> Michal Krebs & Eva Pechová: *Vietnamese Workers in Czech Factories-Research Report Excerpt*. The Ministry of Labour and Social Affairs, 2009.

number of unemployed and underemployed people in Vietnam. Moreover, Vietnam is still in its economic structure transition process following the State's direction of enhancing the proportion of industry and services while lowering the proportion of agriculture. However, agriculture still occupied as high as 21% of the economic structure. This is the sector that involves a massive number of workforces and, due to seasonal dependency, creates a lot of idle labour as well.

**Table 23: Comparative indexes of Vietnam and the Czech Republic**

Year 2009	Vietnam	Czech Republic
Population	86.024.600	10.506.813
Labour force	55,5%	50,3%
GDP per capita	1.064 USD	18.115 USD
Unemployment rate	2,9/5,6 *	8,7%
Structure of economy:		
- Industry	40,2%	51,7%
- Agriculture	20,9%	2,2%
- Services	16,8%	29,2%
Average monthly gross wage of employees	150 USD	1.172 USD

*Source: Statistical Offices of relevant countries*

*(\* Unemployment rate/Underemployment rate)*

*\* Underemployment reflects underutilization of the productive capacity of the labour force. One measure is time-related underemployment that refers to the number of employed persons whose hours of work in the reference period are insufficient in relation to a more desirable employment situation in which the person is willing and available to be engaged<sup>21</sup>.*

The number of workers from Vietnam arrived in the Czech Republic increased rapidly from 692 in 2006 to 5.425 in 2007 and reached its peak of 16.254 in 2008 (See Table 15, page 30). However, according to the Reports on the situation on the job market in 2007, 2008 and 2009 of the Ministry of Labour and Social Affairs, together with Mongolians, Vietnamese workers mainly worked in manufacturing and textile industries

<sup>21</sup> International Labour Organization: Thailand Labour Market Indicators 1990-2004. Bangkok 2007

that did not require high skills and offered low wages. In an interview with Mr. Nguyen Duc Tung, First Secretary and Head of the Labour Cooperation Section of the Embassy of Vietnam in the Czech Republic, he assessed that: *“Vietnam has the potential of exporting its labour force to foreign countries because we have abundant source of young workforce who are smart and hardworking. However, the mass export of unqualified workers is profitable in short term but is risk potential in long term. In fact it’s the reason why Vietnamese workers have lost their advantage in Czech firms”*<sup>22</sup>.

In reality, mass export of unskilled workers from Vietnam in recent years corresponded to the demand of many Czech firms. But if the migrant workers owned some skills, they would have had better payment and been able to manage, to some extent, when became redundant due to the impact of the crisis.

## **2. The perspective of the labour cooperation**

One may raise a question: what is the perspective of the labour cooperation between the Czech Republic and Vietnam? To give an affirmative answer is not easy in the current development. Nevertheless, I still have confidence in the future of the labour cooperation between the 2 countries. There are 2 main bases supporting my belief: the capacity of Vietnam’s human resources or the supply side and the demand of the Czech market.

From the supply viewpoint, Vietnam still has a tremendous workforce thanks to a young population that maintains a high rate of people at working age. Table 24 has the rate of unemployment and of underemployment in Vietnam. The unemployment rate looks impressive but in reality many people don’t have a permanent job. They are rural inhabitants and self employed. Their works depend on crops and they are temporarily unemployed out of crops. They are among the underemployment group and constitute the main source for labour export. Furthermore, export of workforce is considered an important measure of the strategy on job creation and poverty and hunger reduction of Vietnam and is supported by the Government. With a labour export strategy being finalized, Vietnam has changed its awareness from mass export of low skilled workers, or export of scope, to export of qualified workers, or export of scale. Only by training and heightening the qualification of workers following the requirements receiving countries can assure a strong and stable labour export industry.

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<sup>22</sup> Author’s interview, April 2010

**Table 24: Unemployment rate and underemployment rate of Vietnam**

	Unemployment rate			Underemployment rate*		
	<i>Total</i>	<i>Urban</i>	<i>Rural</i>	<i>Total</i>	<i>Urban</i>	<i>Rural</i>
<b>2008</b>	2,38	4,65	1,53	5,10	2,34	6,10
<b>2009</b>	2,90	4,60	2,25	5,61	3,33	6,51

*Source: General Statistics Office of Vietnam*

Nevertheless, the cooperation in labour export depends more on the demand of the receiving country. Before the crisis, the Czech Republic used a lot of foreign workers mainly for its manufacturing sector. Many Czech firms expressed their appreciation towards and need of workers from Vietnam because they are hard working and adaptive. The global crisis brought the Czech economy to recession and forced firms to cut down production and lay off employees. The demand for foreign workers ceased ever since. In 2010, the Czech economy has recorded clearer recovery with industrial output and revenue in 3<sup>rd</sup> quarter of 2010 increased 10,2% and 12,4% year-on-year respectively. This increase was mainly contributed to by manufacture of *motor vehicles, trailers and semi-trailers* (contribution +1.9 p.p., growth by 11.5%), manufacture of *fabricated metal products* (contribution +1.9 p.p., growth by 23.4%) and manufacture of *machinery and equipment* (contribution +1.8 p.p., growth by 23.9%)<sup>23</sup>. According to an article published on 19 November 2010 on the Prague Daily Monitor Online news, Czech car output in 2010 is expected to reach more than 1 million for the first time after the crisis. *In January-October 2010, car producers Skoda, TPCA and Hyundai, together with small manufacturers, turned out 889,546 vehicles, a year-on-year growth of almost 11 percent. And the expectation is that at end-2010, the total motor vehicle output should reach 1,006,500 units*<sup>24</sup>. These are the industries that used a lot of migrant workers and this sign of recovery promises a re-rise in the demand for foreign workers including those from Vietnam.

Out of the above mentioned advantageous conditions, I would worry about the current policy response with regards to migration. When applying stricter visa and work permit procedure, the Czech Republic introduces two projects of active selection of qualified workers and green card. However, in the current regulations, only citizens from listed countries are eligible to apply and Vietnam is not enlisted. Therefore, Vietnamese

<sup>23</sup> Czech Statistical Office

<sup>24</sup> <http://praguemonitor.com/2010/11/19/czech-car-output-likely-top-one-million-units-first-time>

citizens, as well as those from unlisted countries, must apply for working visa and work permit as usual if they want to work in the Czech Republic. A very difficult, costly and long lasting procedure is the obstacle they have to get through. In reality the number of Vietnamese workers with valid work permits has decreased from 14.969 by December 2008 to only 2.109 by December 2009 and 1.729 by June 2010. The figure means that no more new work permits have been issued since the end of 2008 and a lot of workers' permits have not been renewed when they expired.

I have a common hope as other Vietnamese people living and working in the Czech Republic that, in a near future, Vietnam will be added in the beneficiary list of the program.

### **III. Current situation of Vietnamese workers in the Czech Republic**

#### **1. Earlier comers:**

- **New trend in daily business:**

Vietnamese citizens who arrived in Czechoslovakia and the Czech Republic in the 70s, 80s and some in 90s are characters of a happier expatriate story. After the expiries of labour cooperation agreements between two governments, many people decided to stay and started their new lives in the Czech Republic. With the characters of hard working and high flexibility, Vietnamese nationals have been very successful and become one of the most stable and successful communities abroad. For many of them the Czech Republic is their second home land.

Table 22 in page 47 compares several basic factors between Vietnam and the Czech Republic as a representative of labour receiving countries. The big difference in all contents in this Table explains the motivation of Vietnamese workers heading to the Czech Republic. The most important factor is the wide development gaps between the two countries in terms of GDP per capita and average monthly wage of the total employees in the economy. The two countries enjoy the same percentages of labour force in the population, but thanks to its tremendous population of 86 million people, 8 times higher than the Czech Republic, the absolute number of people in the labour force of Vietnam also exceeds more than 8 times as compared to that of the Czech Republic. As a consequence, this condition causes a huge number of unemployed and underemployed



people in Vietnam. Moreover, Vietnam is still in its economic structure transition process following the State's direction of enhancing the proportion of industry and services while lowering the proportion of agriculture. However, agriculture still occupied as high as 21% of the economic structure. This is the sector that involves a massive number of workforces and, due to seasonal dependency, creates a lot of idle labour as well.

Table 25 summarizes the number of Vietnamese workers who continued to stay in Czechoslovakia after their term ended since late 1980 until 1989. Calculating both legal and illegal stay, in 9 years there were total 761 people to stay. While there was only 6 people moving to other countries within this period, in 1990 alone, there was 2.862 Vietnamese workers fled Czechoslovakia and many of them then came back to the Czech Republic. The reason of this surge was firstly the social uncertainty after the political change in 1989 and in 1990 many workers became redundant. *By the end of 1989 Czechoslovakia changed its political regime. The economy turned from planning to market economy. This change has affected seriously the lives of workers including Vietnamese ones. In the first six months of 1990 37 firms which used Vietnamese workers reported thousands of redundancies. By the end of 1990, 50 firms requested to return Vietnamese workers back home earlier than agreement term because they were unable to create more jobs or retrain workers.*<sup>25</sup>

**Table 25: Statistics of Vietnamese workers inflow and outflow in the period of late 1980 – 1989**

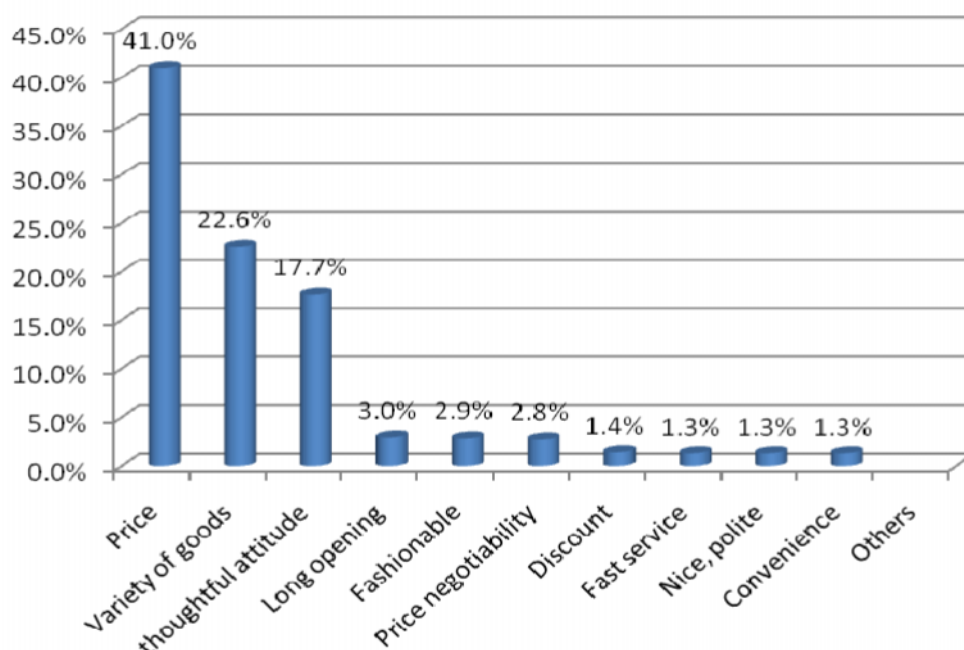
Total of sending workers	36.864
Returners	22.063
Continue staying in Czechoslovakia	297
Getting married with local people	419
Illegal stay	45
Expatriated to other countries	6
Death (illness, accident reasons)	77
Imprisonment	50

Source: Embassy of the SR. of Vietnam: *15 years of labour cooperation (1980-1995): Statistics and events*. Prague 1995.

<sup>25</sup> Embassy of the SR. of Vietnam: *15 years of labour cooperation (1980-1995): Statistics and events*. Prague 1995.

For most of Vietnamese people, when accepted to stay permanently in the Czech Republic, the majority of Vietnamese people started their own business. They began with small trade activities and thereafter moved to live in smaller communities throughout the Czech territory. The activities by Vietnamese people are divided into 2 main categories: border trade and food shop (potraviny/ve erka). One can easily find the information that in every Czech border gates with German, Austria, Poland and Slovakia Vietnamese people open their border market places. Thanks to the big difference in price between the Czech Republic and others, border trade by Vietnamese people brought them high income. For many others running food shop was a good way. People earn money by serving Czech population with their nimbleness and hard working. The convenience and quality of goods that Vietnamese food shops offer is what the Czech people appreciate. A detailed survey conducted by GfK Czech, s.r.o. in 2008 at the order of the Association of Vietnamese Enterprises in the Czech Republic summarizes the opinion of 985 Czech citizens in Graph 13. Overall, the respondents are content with Vietnamese food stores in terms of reasonable price, variety of goods and thoughtful attitude.

**Graph 13: Satisfaction of Czech inhabitants towards  
Vietnamese foods shops**



Source: Association of Vietnamese Enterprises: *Vietnamské vecerky*. GfK Czech s.r.o, 12/12/08

In recent years there have been new trends in the development of the Vietnamese community at the change of the socio-economic situation of the Czech Republic as well as its neighboring countries. When border trade becomes more and more difficult and generates lower benefits, many people closed their textile and shoes shops to open new food shops. Likewise, the number of nail salons operated by Vietnamese people has been increasing over years. Ian Willoughby, a dweller in Vinohrady, had some observations on [www.radio.cz](http://www.radio.cz) as follow: *there is also a third, perhaps more surprising element of the Vietnamese business revolution: nail salons offering manicures, pedicures, elaborate varnish jobs and nail jewellery. The incredible thing is that while five years ago there were apparently no such businesses in the Czech Republic, now there are around 200 in Prague alone.*<sup>26</sup>

Running food shops and nail salons is a right direction for the development of Vietnamese community in the Czech Republic. The Vietnamese must follow the model of civilized trade in order to exist in this civilized society.

- **Can Vietnamese be Czech minority?**

Today the Czech Republic has officially recognized 12 national minorities; they are Bulgarian, Croatian, Hungarian, German, Polish, Roma, Ruthenian, Russian, Greek, Slovak, Serbian, and Ukrainian. Under the regulations of the European Union and national law, recognized minorities in the Czech Republic benefit from many important rights. According to the Act 273/2001 Coll. dated 10 July 2001 on the rights of the members of national minorities, 10 rights are stipulated to the exercise by recognized minorities, including:

1. Free choice of membership of a national minority
2. Right of association of members of a national minority
3. Right of participation in dealing with matters concerning a national minority
4. Right of using name and surname in the language of a national minority
5. Right of multilingual names and denominations

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<sup>26</sup> <http://www.radio.cz/en/section/letter/vietnamese-nail-salons-something-of-phenomenon-in-czech-republic>

6. Right of using the language of a national minority in official documentation and discourse and hearing before a court
7. Right of using the language of a national minority during elections
8. Right of education in the language of a national minority
9. Right of the development of culture of members of national minorities
10. Right of spreading and receiving information in the language of a national minority.

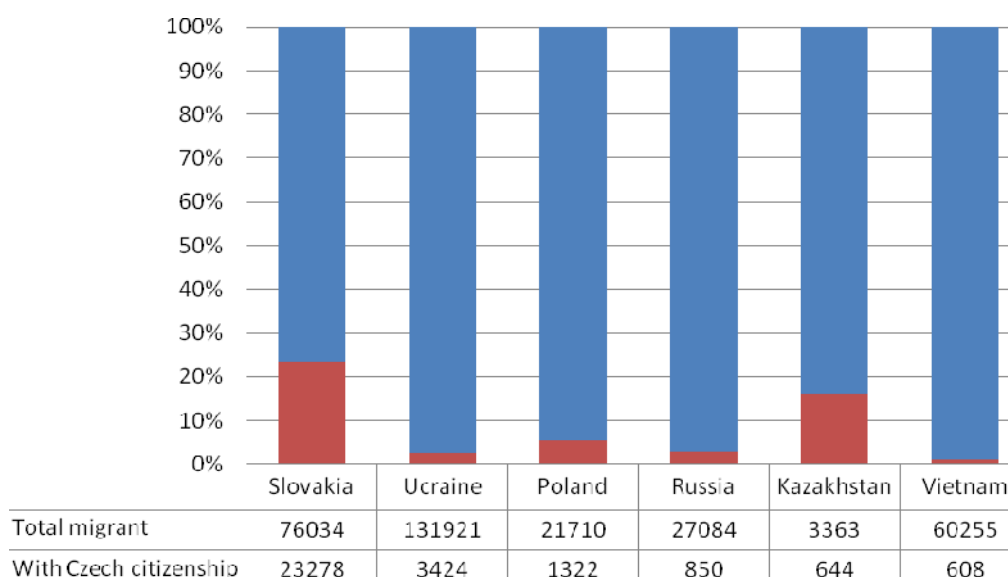
The Vietnamese community has sought official recognition of his community for many years. The status of ethnic minorities would help develop the Vietnamese culture, traditions, and especially language in their second home land, the Czech Republic. For them, the most important right is the ability to use their language in every social relation. They can use Vietnamese in contact with local authorities and courts. In municipalities with a significant proportion of Vietnamese, their children can learn and take graduation exams Vietnamese (except for required exams in Czech).

According to recent statistics by the Czech Foreign Police, by 31/12/2010 there have been 60.301 Vietnamese nationals legally residing in the Czech Republic, of which 36.634 people (20.582 men and 16.052 women) are enjoying permanent residence status and 23.667 people (14.828 men and 8.839 women) living under long term residence status. It's acknowledged that Vietnamese has a long and stable stay in the Czech Republic and has positive contribution to the society. The recognition of a minority would be crucial for the integration of the community to the Czech society. However, there is one major obstacle in the application process when the number of Vietnamese people having Czech citizenship is still very low. Graph 14 has some interesting figures. Among six pilot countries of origin, Vietnamese was the third largest community in the Czech Republic but was the smallest in number of people having Czech citizenship, only 1,01% of the total Vietnamese people legally living in the country. This is a virtual difficulty because according to the European Charter for Regional or Minority Languages and local Law on ethnic minorities (273/2001 Coll.), member of a national minority must be a Czech citizen. *“The member of a national minority is a citizen of the Czech Republic who professes other than Czech ethnic origin*

*and wishes to be considered a member of a national minority in common with the others who profess the same ethnic origin”<sup>27</sup>.*

So, what is the reason of this low proportion? The answer is just simple, the majority of Vietnamese people do not want to exchange their Vietnamese passports with Czech ones. Being Vietnamese citizens bring them more benefits than Czech ones. As a tradition, Vietnamese people always maintain a tight relationship with their family, relative, friends and fatherland. They usually travel to home country to visit their beloved and enjoy holiday. Before 2008 they must apply for Vietnamese visa when returning home if they didn't keep Vietnamese passports. Since 2008 this is no longer important when the government approved a new policy to cancel visa for all Vietnamese people regardless of citizenship they own. In addition Vietnamese people do not want to be considered as foreigners in their home.

**Graph 14: Czech citizenship acquisitions by citizenship of origin by 2008**



Source: Czech Statistics Office (for total migrant) and <http://www.eudo-citizenship.eu> (for migrants with Czech citizenship)

In fact, Vietnamese community in the Czech Republic has something to believe that they will be recognized as a national minority. Firstly, the second generation of Vietnamese community in the Czech Republic will be an important addition to the number

<sup>27</sup> Article 2, Paragraph 2, Act 273/2001 Coll. dated 10 July 2001 on the rights of the members of national minorities

of Vietnamese with Czech nationality. They were born and growing up in the Czech Republic. They go to Czech schools, speak Czech language and learn Czech culture. They are called “banana child” because they have yellow skin of Vietnamese but inside they have “white” culture. For the children, they grown up in the middle of the two cultures and they are quite different from their parents.

Secondly, the effort to become a national minority in the Czech Republic is supported very much by Vietnamese Government. The issue was spoken out at least 2 times by Vietnamese Prime Minister Nguyen Tan Dung during his meeting with Czech Prime Minister Mirek Topolanek in September 2007 in Prague and in March 2008 in Hanoi.

## **2. The new comers: flew to the Czech Republic to be unemployed: the bitter facts**

Vietnamese workers who came to the Czech Republic in the second wave, did not experience good fate as their brothers. Dreaming of changing their lives and escaping from persistent poverty they had to pay expensive service fees, from 10.000 USD – 15.000 USD, to the labour agencies in order to be employed. This was quite a big sum that the majority of them couldn’t afford so they had to borrow money from banks with their house and/or farming lands mortgaged.

The number of Vietnamese workers in the Czech Republic increased quickly from 692 people in 2006 to 5.425 in 2007 and recorded its highest appearance in 2008 with 16.254 people. However, the dream of Vietnamese workers was shattered when the global financial crisis knocked at Czech’s doors. As already mentioned in Chapter 2, since the third quarter of 2008, the global financial crisis started to affect the economy of the Czech Republic. Vietnamese workers were among the most affected foreign citizens.

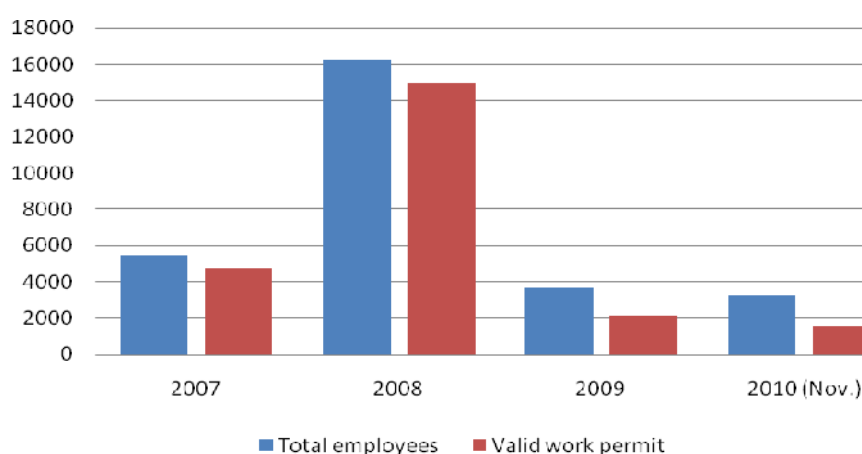
Responding to the author’s question on the causes of mass layoff of Vietnamese worker in the Czech Republic, an official of the Ministry of Labour and Social Affairs has said: *“Loss of employment in the Czech Republic in the past two years not only related to citizens Vietnam, but all other foreigners and also the citizens of the Czech Republic and European Union. The financial crisis has reduced the numbers of employees because employers had to cease their business activities. Therefore, the cause of loss of*

*employment for Vietnamese citizens is objective and is a result of the current economic situation in the country”<sup>28</sup>.*

Mass layoffs of foreign workers by manufacturers have pushed a lot of Vietnamese workers to the street. Since December 2008 until June 2009, 10.531 Vietnamese workers were laid off and by 31 December 2009 2.053 more had to leave jobs. For those who arrived in the Czech Republic since 2006 and 2007, the situation was not as bad as those who came during the time of the crisis because they have earned some money from past works. The people who have just arrived had to face very difficult situation because they lost jobs after just few months in work and some even haven’t started working yet. This means that these new comers have become unemployed right at their arrival and they did not get any wage. Without money, family relatives, Czech language and skills, they could do nothing but waited in vain. *From the end of 2008 and the first six months of 2009, hundreds of jobless people arrived in Sapa<sup>29</sup> everyday to look for some odd jobs in order to earn only a hundred CZK or just to seek a relief meal<sup>30</sup>.*

Graph 15 presents a significant shrinkage of Vietnamese labours in 2009 and 2010 as compared to the figure of 2008. The number of people having valid work permits also declined in 2009 and 2010. The authority, while stopped processing new applications, did not renew expired work permits for Vietnamese citizens.

**Graph 15: Annual change in number of Vietnamese employees in the Czech Republic and those with valid work permits**



*Source: Ministry of Labour and Social Affairs*

<sup>28</sup> Interview with Mgr. Petra Boušková, Department of Foreign Employment, MoLSA

<sup>29</sup> Sapa is the name of the biggest trade centre of the Vietnamese community in the Czech Republic.

<sup>30</sup> Interview with Mr. Hoang Dinh Thang, Chairman of the Association of the Vietnamese in the Czech Republic

Unemployed Vietnamese workers fell into a dilemma because they cannot return home but staying here is facing hardship, and it seemed that they were heading to a deadlock. They cannot return home because the huge debt will hardly be settled. As earlier mentioned, 10.000 USD was the charge workers had to pay for the work agency in order to work in the Czech Republic. They were promised by their agencies that they can receive good wages and pay off their debt in more or less 1 year. For people from the rural areas of Vietnam, 10.000 USD is an excessive budget and the majority of them had to borrow from Banks. As shown in Table 26, the average income of 1 person in the rural area in 2008 was 46.2 USD only (only 762 thousands VND). With this low income, people will not be able to pay their debt and the fact that their house or farming land is seized by banks is inevitable.

Tran Van Long, a 34 years old Vietnamese worker has said: “We were all nervous. Even I have sent home some thousands USD, but this still cannot settle the debt. I don’t dare to go back. I and many others decided to wait here for a chance”.

For many people, besides the money matter, going back with empty hands is also a great shame their families paid high expectations upon their departure.

**Table 26: Monthly income per capita of Vietnam**

	(USD)			
	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>
<b>Whole country</b>	21.6	29.4	38.6	60.3
<b>Urban</b>	37.7	49.4	64.1	97.3
<b>Rural</b>	16.7	23	30.6	46.2

*Source: General Statistics Office: Result of the survey on Household living standards 2008.*

Anticipating real difficulties ahead, many Vietnamese workers tried to stay to wait for other chances. The only way for them is to change the type of visa from working to business and look for work in the informal economy. Lack of job opportunities, they had to work only for meals and accommodation for Vietnamese entrepreneurs in order to avoid having to leave immediately.



### **III. The factors that pushed Vietnamese workers into hardship**

#### **1. Impact of the global financial crisis**

As already studied in Chapter 2, the global financial crisis was the decisive factor that turned the situation of migrant workers in the Czech Republic from good to bad very quickly. If it had not happen workers would have continued their foreign dreams. When the world economy fell into recession, declining local and international demands caused pressure on local manufacturing sector and forced it to cut down production. The consequence was the dismissal of the majority of low and unskilled foreign workers in manufacturing sector. By December 2009 more than 12.000 Vietnamese workers lost their jobs and entered the stock of foreign unemployment in this country. Unlike the workers from Mongolia who collectively participated in the Voluntary return program and returned home, most of those from Vietnam decided to stay in the Czech Republic and started to struggle a hard life.

#### **2. Weak labour export management framework**

Weak management of the labour export activities has led to some difficulties for workers.

Firstly, the legal framework on labour export in Vietnam has been in effect since 2003 (including Government Decree no. 81/2003/N -CP dated 17/7/2003 implementing regulations of the Labour Code on Vietnamese workers in foreign countries and Government Decree no. 141/2005/N -CP dated 11/11/2005 on management of Vietnamese workers in foreign countries). However the control over the labour export activities has not been strictly performed, sanctions have not been applied seriously by managing authorities. According to the Ministry of Labour - Invalids and Social Affairs of Vietnam, by June 2010 only 30% of 161 labour export companies have been operating efficiently, the rest have been inefficient. However, only 4 companies were withdrawn business licenses (of which, 1 company did not meet legal requirements, 1 committed violations and 2 of them had low efficiency). This behavior has paved the wave for many illegal operations in this field, such as fraud, provision of incorrect information to workers, excessive service costs incurred by workers. With regards to medium service costs, labour export company shall comply with the regulations of Decision no. 61/2008/Q -L TBXH issued on 12/8/2008 by the Minister of Labour - Invalids and Social Affairs of Vietnam

stipulating the medium service fee paid by worker. But in reality, labour export companies always charged workers much higher than the regulated fee. For example, medium service fee for Australia and the United States are fixed at 3.000 USD and 5.000 USD a person, but after signing contract, workers had to pay 12.000 USD for the former and 15.000 USD for the later.

Secondly, due to the neglectfulness of the Government in this activity, Vietnam has not put forward a plan for the export of its labour force. Consequently, education and training courses for workers of basic skills, foreign languages and foreign culture have been carried out perfunctorily, which later left many difficulties for workers in receiving countries.

### **3. Informational asymmetry**

*The movement of workers across labor market is bound to be associated with informational asymmetry*<sup>31</sup>. Oded Stark paid much attention to the interaction between international labor migration and asymmetric information but focused on the advantage of possession of information by workers over their employers. Migration workers from Vietnam experienced the contrary. In Vietnam, they lacked of information about the outside world, they only received information from labour agencies who were trying to recruit as many as possible people who wanted to work abroad. Receiving a share of commission in the fee workers had to pay, the labour agencies provided them with untruthful information about the work they would do abroad and the wage they are receiving. Even when the market for foreigners in the Czech Republic started to become stagnant and signs of collapse were clear, the labour agencies kept wooing those poor and uninformed people to fly to the Czech Republic. It was this attempt that brought a lot more workers from Vietnam to the Czech Republic at the time when firms started to lay off workers. Many Vietnamese workers had to leave job after some months and many even did not start working yet.

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<sup>31</sup> Oded Stark: The Migration of Labor. Blackwell Publishers, 1993.

#### **IV. The project “Voluntary return”: Why didn’t Vietnamese workers participate?**

Experiencing severe impacts of the financial crisis, Czech Government has introduced at the end of 2008 the “Voluntary Return Project” as a swift policy response. The project was designed to be carried out in two phases from 16 February 2009 - 15 December 2009. Unemployed migrants who registered to return to their home country would receive a free airline ticket and 500 Euro in the first phase and 300 Euro in the second phase. This is a good opportunity to those who would like to find a way out of the current situation but are unable to pay for the air flight ticket themselves.

The Ministry of the Interior of the Czech Republic, who was the designer of the project, expected that the project would be participated by 6.000 foreigners. However, according to the statistics of the Ministry of the Interior, only 2.089 foreigners participated in this project, which was only 1/3 of the expectation. The majority of the returners were Mongolian with 1.342 people. For the Vietnamese, only 283 people registered to go back home.

The main reason for which Vietnamese workers didn’t want to go home was nothing but the heavy debt from their borrowed money back home. Going home with 500 Euro is nothing to do with the debt. Looking back to Part 2 and Table 26 on page 58 above, a worker in the rural area enjoyed only 46 USD incomes per month. Suppose that a worker can save 40 USD a month, he would have to work for 20 years to have 10.000 USD to pay his debt. For luckier ones who arrived in work earlier and have earned several thousand USD so far, they will also have to struggle for 5 – 10 years. Therefore, if returning home they will not be able to settle the debt and evidently the banks will be ready to seize their house or farm. This scenario is likely to plunge their family into deeper poverty. In a story published by the New York times, Trieu Dinh Van, a young Vietnamese worker who has just lost his job, admitted that *“It would not be good for me to go back to Vietnam,” he said on a recent day, wondering where he would spend the night. “I would return home with empty hands and couldn’t marry or build a house. That would be a great shame for me.”*<sup>32</sup>

In addition, there was a way out, even costly and risky, which enabled Vietnamese workers to prolong their stay in the Czech Republic. With the help of work agencies, they

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<sup>32</sup> [http://www.nytimes.com/2009/06/05/world/europe/05iht-viet.html?\\_r=1](http://www.nytimes.com/2009/06/05/world/europe/05iht-viet.html?_r=1)

could apply to change their visa from working to business basis so that they can continue to stay legally. It was costly because, “in for a penny, in for a pound”, they had to pay the agencies 2.000 – 3.000 USD for the service. Some could spend the money from their saving but many of them who did not have enough money had to call their family in Vietnam to send them more money. It was also a risky decision when most of the people were not sure about their future. Their first period as free persons in this very different society was to find seasonable jobs and even odd ones to earn little money just enough for foods and a place to sleep. Mr. Nguyen Van Chien from Ha Tay province, currently working in Pardubice is a lucky man. He came to the Czech Republic with a group of 4 other men from one same village in May 2007. In December 2008, all Vietnamese workers in his factory were dismissed. But then only he was reemployed by another workshop. *“I am lucky. Maybe the reason is I look bigger and stronger than all others. Now I am working with 70 CZK/hour pay. But when my working visa expired I had to apply for a business visa to stay here longer”.*

## **V. Conclusion**

Mass export of unskilled workers turned out to be instable even in short term under the impact of the financial crisis. Vietnamese workers came to the country massively and then lost jobs massively. This critical turning-point that drove them to the dilemma was in no one's expectation. Staying meant facing hardship, but they still have one hope. Returning would lead them to an impasse from where they could never pay their debts. The recent economic downturn was main reason that led to this situation. It was an objective cause which happened beyond everybody's will and wishes. Workers who decided to stay should not blame this upon any one, but they should prepare for the coming days. In fact they can have something to believe that the situation will be better. They can lean on the strong community of their compatriots, they can look forwards to a better social policy of the Czech government towards migrant workers, and they can believe in the quick recovery of the Czech economy.

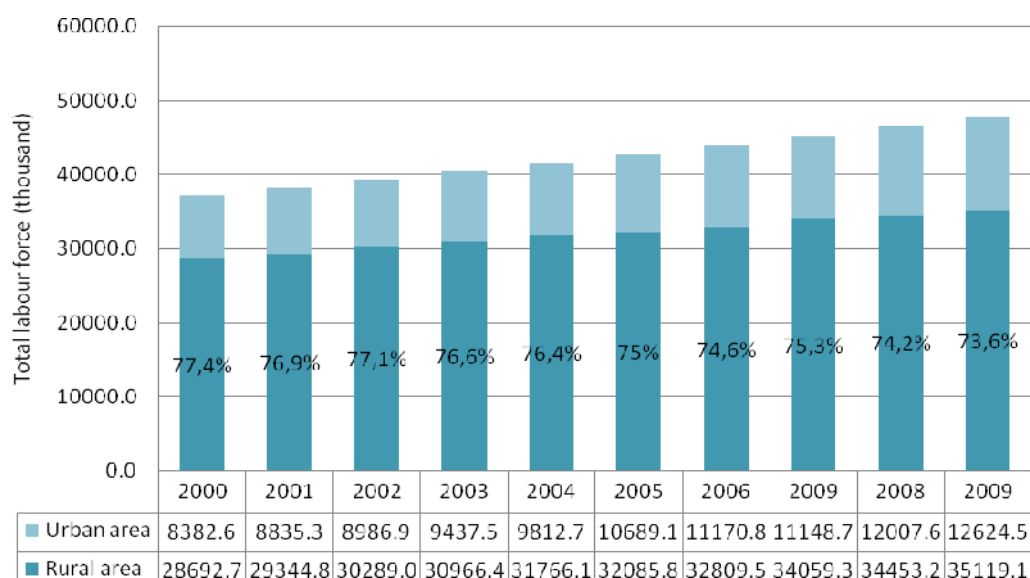
## CHAPTER IV

### POLICY RECOMMENDATIONS TO IMPROVE THE EFFICIENCY OF VIETNAMESE LABOUR EXPORT TO THE CZECH REPUBLIC

#### I. Why should Vietnam develop labour export sector

In its transition process, Vietnam is still considered a rural country because in the year 2009 there is 73,6% of the total labour force concentrating in the rural areas and 48,2% working in agriculture sector (excluding aquaculture). Graph 16 shows that the proportion of labour in rural areas remained this height since 2000. Meanwhile, the social labour productivity of the agriculture sector stays very low, only at 34,7 million VND/person/year (approximately 1.927 USD) that is equal to only 10% of the productivity of industry, which has reached 346,2 million VND/person/year (approximately 19.233 USD). As once displayed in Table 24 (page 49) of Chapter 3, the unemployment rate of Vietnam in 2009 was only 2,9%, which was not so high, but the rate of underemployment was about two times more. Rural areas always bear a huge amount of idle workers including unemployed and underemployed people.

**Graph 16: Share of labour force in urban and rural area**



*Source: General Statistics Office of Vietnam*

In addition, Vietnam has a potential and young labour force which is a favorable condition for the export of its labour force. Take the year 2009 for consideration, 43% of

the total social labour force is within the age of 15 – 29, and 74,4% of the young labour force gathers in the rural area where experiencing higher rate of unemployment and underemployment. The figures are shown in Table 27.

In the implementation of the target of poverty reduction and hunger eradication creating jobs and income for the population is a main task. While the local economy is unable to supply more jobs, sending labour force to work in other countries has proved its high significance. Apparently the labour export industry will create threefold benefit: for the workers themselves, for the companies and for the society.

**Table 27: Vietnam's Labour force in areas and age, year 2009**

	<b>Population</b>	<b>Labour force</b>	<b>15 – 19</b>	<b>20 – 24</b>	<b>25 - 29</b>
<b>Total</b>	85,448,030	56,512,803	9,892,010	8,090,048	6,165,230
<b>Urban</b>	23,276,246	15,963,130	2,205,153	2,108,217	1,859,517
<b>Rural</b>	62,171,784	40,549,673	7,686,857	5,981,831	4,305,714

*Source: the Ministry of Labour-Invalids and Social Affairs of Vietnam*

Benefits to the workers are obviously the better income they can have. Table 28 displays the income enjoyed by workers in different professions and countries. Take unskilled labour who are those with lowest pay in the list, working in Japan and Korea bring them 4.800 USD/year so they will have 400 USD/month. This level of income was almost 15 times more than a farmer can work in crop. The savings from their works abroad will be a crucial capital for many workers once they return home. On this basis, workers can later open their own business and at least create works and benefits by themselves.

**Table 28: Annual income for Vietnamese workers  
by professions and country**

	<b>Japan</b>	<b>Korea</b>	<b>Libya</b>	<b>Taiwan</b>
<b>Unskilled labour</b>	4.800	4.800	2.640	3.065
<b>Mason, woodworker</b>	6.000		3.042	

(USD)

<b>Electrician</b>	6.000	6.000	3.042	
<b>Welder</b>	7.200	7.200	5.292	
<b>Weaver</b>	6.000	6.000		4.800
<b>Tailor</b>	6.000	6.000		4.800

*Source: Market – Price magazine no. 3/2001*

Moreover, working in a modern environment, workers can learn and practice higher professions, skills, modern knowhow and in foreign language. This point is very important for the workers themselves when they return to work in Vietnam or in case they are employed to work abroad again.

For labour agencies, the business brought them good benefits. Table 29 below summarizes the income of all companies operating in the labour export industry.

**Table 29: Income of labour agencies 1991 – 1999**

<b>Year</b>	<b>Income (thousand USD)</b>
1991	2.500
1992	6.800
1993	15.800
1994	43.100
1995	77.900
1996	100.800
1997	129.200
1998	148.300
1999	150.800
Total	675.200

*Source: Trade magazine no. 6/2000*

Benefits for the society are uncountable. In ten years from 1980 – 1990 Vietnam received in total 955.570.089 CZK, that is 31.852.336 USD<sup>33</sup>. The source of this income for the Government was from (1) benefits from social insurance, subsidy for living cost for workers, recruitment supports paid by firms; (2) 10% contribution paid by workers; and (3) other incomes (fines for getting marriage with foreigners, unpaid wages of fled workers, voluntary sponsor money contributed by workers in campaigns). This amount of money was then used to settle the loans with the Czech and Slovak Federal Republic according to the Protocol on the settlement of loans and due debts in the field of non-trade payment signed between the two Ministries of Finance on 12 November 1992 in Hanoi and on 7 December 1992 in Prague. In two years 1996 and 1997, there were 50.000 people working abroad who sent back to the country 350 million USD. Taking into account the amount of workers going abroad in other ways the total number of workers in other countries would reach 250.000 generating annual income of around 1 billion USD. In Vietnam, not so many sectors can achieve this income level.

Export of labour force helps the Government reduce cost on vocational training and job creation. This industry has created jobs for a section of Vietnamese workers, contributing to accomplishing job creation mission, relieving the burden of underemployment and unemployment for the society. Under the Governmental agreements on Labour cooperation, in 10 years 1980 - 1990, Vietnam sent each year 26.000 workers to different foreign countries. In the year 2009 only, the number of Vietnamese expatriate workers was 86.990, which is 5% of the total unemployed persons this year.

## **II. Reasons of poor efficiency**

In order to give practical recommendations to improve the efficiency of the labour export to the Czech Republic, it's necessary to understand the reasons of the poor efficiency and current situation of Vietnamese workers in this country.

Firstly, the reason that directly caused foreign workers lose jobs is the economic crisis, an externality, as described above. The Czech Republic is not immune from its widespread impacts. The layoff of foreign workers is an obvious consequence of the economic downturn. This is an objective event and no one can predict or prevent it from

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<sup>33</sup> Embassy of the SR. of Vietnam: *15 years of labour cooperation (1980-1995): Statistics and events*. Prague 1995.



happening. However, the experience from this bad situation can draw out some lessons for those who involve in this labour export activity.

Secondly, the internal reasons relating to the labour export policy of Vietnam and the workers themselves. Vietnam still hasn't got a suitable strategy for labour export. Most of the workers who went to the Czech Republic were unskilled and employed to simple & manual jobs. Before going abroad, they were not or not enough trained, taught of foreign language nor educated about the culture and custom of the local people. A recent survey by the Ministry of Labour – Invalids and Social Affairs of Vietnam has found that only 20 – 30% of the exported workers own some skills. Consequently, it was not easy for them to integrate to the society and hard to find other jobs when became unemployed.

Thirdly, the role of the labour agencies and the strict and opaque visa policy run by the Czech Embassy in Hanoi. For the former reason, the labour agencies in Vietnam played the key role in inflating the cost that applicants had to pay in order to be employed. They profited excessively from the so-called *golden rain* years created by the excessive demand of Czech firms. These agencies only sought to recruit as many applicants as possible in order to maximize their profit without caring about the workers' qualifications because half of the money was their commission<sup>34</sup>. They actually took advantage of the loophole created by weak enforcement of the Law on Vietnamese workers abroad (Law no. 72/2006/QH11 dated 29/11/2006). Furthermore, the Czech Embassy in Hanoi also engaged in the unbelievable high medium service fee that Vietnamese workers had to pay. The extremely strict visa procedure and uncooperative behavior of the consular staffs made it absolutely difficult for normal people to apply directly for a working visa. There was probably a hidden agreement between labour agencies and the Embassy's staffs in this matter. *According to the additional interviews in Vietnamese community corruption at the Czech Embassy was one of the reasons why the price for arranging the travel from Vietnam to the CR was high*<sup>35</sup>. This corruptive maneuver seems to be utilized in other Czech Embassies such as in Mongolia or Ukraine. A Mongolian has told her sad story applying for visa to work in the Czech Republic, Ms. Undarmaa said: *"I paid the agency 500 euro for the work permit; when the permit was issued, I was allowed to apply for the visa and that cost me another 1000 euro. They promised the visa would come through in*

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<sup>34</sup> Michal Krebs & Eva Pechová: *Vietnamese Workers in Czech Factories-Research Report Excerpt*. The Ministry of Labour and Social Affairs, 2009.

<sup>35</sup> Michal Krebs & Eva Pechová: *Vietnamese Workers in Czech Factories-Research Report Excerpt*. The Ministry of Labour and Social Affairs, 2009.

*two months, but...*” and later, she blames her misery on the Czech embassy – which works too slowly – rather than on the loan shark from Bank<sup>36</sup>.

### **III. Policy recommendations**

Basing on the above researches, the essay ends up with some proposed solutions as follows:

1- Vietnamese Government should have a comprehensive labour export strategy that aims at increasing the quality of the labour force rather than mass export of unskilled workers as happened in recent years. This is the key to a sustainable labour export sector. Education and training of workers should be done in large scale. The imbalance of the educational system should be addressed because there exist too many universities while very few vocational training schools. As a consequence, those who are not eligible to attend university have little chance to go to vocational school to learn a profession and skills.

2- It is necessary to improve the knowledge and skills of the workers through training and re-training programs. Qualification of workers before exports should be realized to ensure the quality of the whole labour force. Education and information of the culture, tradition, custom and modern life should be provided to workers before departure. This measure helps improve their living skills and integration ability in the receiving society.

3- Vietnam Government should work with Czech Government to ease the visa issuance for Vietnamese people and at the same time to make the visa application procedure in Czech Embassy in Hanoi more transparent to the public. Transparency and accessibility of visa issue would prevent price over-inflation.

4- Law enforcement matters. The above-mentioned Law no. 72/2006/QH11, which has detailed regulations on the labour export activities, especially the rights and responsibilities of labour agencies, the conditions to open a labour agency company, ceiling service cost, sanctions, etc, should be implemented seriously by the executive bodies in order to control the operation of labour agencies to prevent them from market domination and ultimately to effectively promote the labour export activity.

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<sup>36</sup> <http://www.migrationonline.cz/e-library/?x=2146838>

#### **IV. Conclusion**

Building up a strong and effective sector of labour export is a good direction that Vietnam should follow. During its transition process sending citizens to work in foreign countries would contribute to the overall functioning of the socio-economic engine. It contributes actively to the reduction of unemployment and underemployment rate, generate income for the workers and increase the stock of foreign currencies thanks to the labour's remittance. Even having engaged in the labour export activities for years there have been still many problems that lower the efficiency of the industry. In order to have a better industry of labour export Vietnam should have concrete steps as studied above. The recommendations include both legal aspects and specific measures and therefore need to be done simultaneously and systematically in order to produce expected results.

## CONCLUSION

The labour market of the Czech Republic is characterized by relatively low mobility and flexibility of the workforce. Thanks to its suitable labour policies the labour market has been functioning pretty well with a moderate unemployment rate as compared to other European countries. It is clear that since the start of its transformation the Czech Republic was a favorable destination for foreign workers. The evidence was the early appearance and large number of foreigners looking for jobs in the country. However, the majority of workers who have arrived in the Czech Republic are from poorer countries of Central and Eastern Europe and Asia to join mostly the secondary labour market. The policies to attract qualified workers haven't produced desired outcome due to lower average wage as compared to developed countries and discrimination towards less developed ones.

For Vietnamese workers who arrived in the Czech Republic over the last three years, three bad lucks fell upon them. Firstly, they had to pay an unbelievable high fee that later turned them heavily indebted. Secondly, the global financial crisis robbed everything from their hands pushed them to destitution. Thirdly, stricter migration policies implemented since the outbreak of the crisis made it more difficult for them in legalizing their stay in this country.

At the moment, Vietnamese people are still facing difficulties and working hard just to exist in this society. Their lives would have been better if the crisis had not occurred. They keep waiting for a better time but who knows when it will come, who knows whether the policies for migration and foreign employment will change or not. From my heart, I believe in a brighter future and that fortune will smile upon them./.

## **Abstract**

Most of the European countries are now facing the common challenge from aging population. This affects the labour market and consecutively the economic engine. As a matter of course the Czech Republic has to welcome workers from outside sources to supplement its labour shortage. I've found that the majority of the migrant workers going to the Czech Republic are low skill ones and they concentrate in the lower tier of the labour market. The efforts of the Government to attract high skill workers have not been much successful in bringing more qualified foreigners to the country. The Vietnamese is the third largest migrant community in the Czech Republic with 60.301 registered people. For those who came here in the 70s and 80s, they have been legally and pretty successfully residing in the society. But for the new workers who were sent to work in Czech factories since 2006, the global crisis turned their lives into hardship. They lost jobs but they couldn't or didn't want to go home. They must hold on in this land with a hope to change their lives.

**Keywords:** *labour market, migration, employment policy, migration policy, Czech Republic, Vietnam*

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